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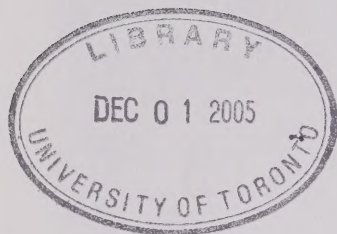








WHO IS RESPONSIBLE?  
FORENSIC AUDIT



(Who is Responsible? Forensic Audit) English

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## NOTE TO READER

This document has been reformatted for publication to make it consistent with the Inquiry Fact Finding Report. In that process, it has been necessary to recreate, only where necessary, some of the tables and graphics. As well, the pagination of this volume differs from that of the original report submitted to the Commission by Kroll, Linquist Avey on May 18, 2005.

Every effort has been made to ensure accuracy of the data and graphics. Readers are advised, however, that diagrams and page references in the Commissioner's Fact Finding Report to the Kroll report and its appendices are to pages found in the original submission. That version should be considered to be the official version of the Kroll report.

The reader should note as well that Appendices A, I, J and K from the original Kroll report have not been reproduced in this document.





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## SECTION ONE

## INTRODUCTION

## I.1

## Retainer of KLA

Kroll Lindquist Avey (“Kroll”) was retained by Mr. Justice John H. Gomery (“the Commissioner”) representing Her Majesty the Queen in right of Canada for the Commission of Inquiry into the Sponsorship Program and Advertising Activities (“COI”).

Specifically Kroll was retained by the Commissioner as forensic accounting experts to assist in addressing the COI’s terms of reference.

In particular, Kroll was requested to undertake the following tasks:

- Identification and summarization of the Government of Canada’s (“GOC”) source of funds for the Sponsorship Program and Advertising expenditures during the period 1994 to 2004;

- Analysis and summary of the funds committed by the GOC with respect to Special Programs and Sponsorship (“SPS”) expenditures and Advertising expenditures during the period 1994 to 2004;
- Analysis and summary of the funds received and their related uses by the communication and advertising agencies with respect to Special Programs and Sponsorship expenditures and Advertising expenditures during the period 1994 to 2004;
- Analysis of communication and advertising agencies and related contracts and events (i) which received significant amounts of money and/or (ii) for which there were concerns;
- Assistance to COI counsel in the preparation for the examination of witnesses, including the identification of relevant documentation and information, identification of potential witnesses, examination and analysis of documentation and participation in interviews of potential witnesses;
- Investigation and research into corporate structures, asset ownership and transactions of parties of interest;
- Assistance to COI counsel with the locating, reviewing and cataloguing of documentation ultimately produced to the COI;
- Development of computerized litigation support; and
- Preparation of this report summarizing our findings related to various topics arising during the hearings of the COI.

## I.2

### Statement of Qualifications

Kroll is a firm of forensic accountants and litigation consultants, with approximately 75 professionals located in Toronto and Ottawa, Canada. Kroll's professionals have many years of experience investigating thousands of business transactions in Canada and throughout the world.



Kroll is part of Kroll Inc., a risk consulting company with offices in United States, Europe and Asia.

Robert Macdonald and Steven Whitla, Principals of Kroll and Chartered Accountants designated as specialists in Investigative and Forensic Accounting, and Pierre St-Laurent, Proprietor of the firm St-Laurent Faucher, les juricomptables, and a Chartered Accountant designated as a specialist in Investigative and Forensic Accounting, have prepared this report with assistance from other professionals under their direction and supervision. Their curricula vitae and those of their colleagues who have assisted with this report are included in Appendix A.

### 1.3

#### Scope of This Report and Restriction on Its Use

This report has been prepared solely for the use of the Commission of Inquiry into the Sponsorship Program and Advertising Activities.

We do not assume any responsibility or liability for losses occasioned to any party as a result of the circulation, publication, reproduction or use of this report.

This report is based on the scope of our review as described in Section 2.0. In the event that further documents or other information become available that could impact our findings, we reserve the right to review such records and reconsider and amend the findings set out in this report.



## SECTION TWO

## SCOPE OF INVESTIGATION

## 2.1

## Available Documentation

The COI issued subpoenas, a sample copy of which is included in Appendix B to this report, to individuals and corporations of interest, and the GOC issued "Call Letters", a sample of which is included as Appendix C hereto, to all federal departments, requesting documentation and information relating to the "Sponsorship Program" and "Advertising Activities" which were the subject of Chapters 3 and 4 of the November 2003 Report of the Auditor General of Canada.

Table I summarizes the volume of documents which were provided to the COI in response to the subpoenas and call letters.

Table 1: COI Universe of Documents - Summary Metrics

DOCUMENT LIBRARIES	NUMBER OF BOXES	ESTIMATED NUMBER OF PAGES
PWGCSC	5,170	20,680,000
OTHER GOVERNMENT DEPARTMENTS	623	2,492,000
COMMISSION OF INQUIRY (COI)	<u>1,275</u>	<u>5,100,000</u>
TOTAL	<u>7,068</u>	<u>28,272,000</u>

Of the estimated 28.3 million pages catalogued, 559,411 were captured in a document management database and 480,789 were disclosed to parties with standing.

The protocols and procedures, document library and catalogue maintenance, document review and analysis and document production and disclosure undertaken by Kroll are detailed in Appendix D to this report.

In addition, at the request of COI counsel, Kroll sent a letter, a sample of which is included in Appendix E hereto, to all identified recipients of sponsorship funds, and requested each to provide information and documentation to the COI pertaining to their sponsorship.

All of these documents were available to Kroll as part of our review. To the extent we have relied on any of these documents in preparing this report, they have been reproduced and entered as exhibits before the Commissioner.

2.2  
Scope Limitation

The above-noted documentation requests and subpoenas related to a 10-year period from April 1, 1994 to March 31, 2004. We note, certain of the requested books and underlying records and documentation relating to the communications agencies and their principals were not available

for our review. Further, we understand that the COI has heard evidence that some of the relevant GOC documents were destroyed during this time period. In addition, we understand that many of these documents have been subject to a number of audits and that as part of that process many documents were moved from the original locations in which they were found, into a "reconstructed" file for purposes of analysis.

As a result of these factors Kroll cannot provide assurance that the GOC documents and files it has reviewed are complete and represent the files as they were in the original instance. Furthermore the incompleteness of the communications agencies' and their principals' books and underlying records and related files and documentation restrict our ability to report on the ultimate use of all sponsorship and advertising funds for those agencies and related contracts and events of interest.

Kroll has done a review of selected agencies, contracts and events. Kroll has not done a review of all SPS contracts and all advertising contracts.

Kroll did not investigate any transactions which were the subject of criminal charges or which may have been the subject of ongoing criminal investigations.





## SECTION THREE

# SUMMARY OF FINDINGS— SPECIAL PROGRAMS AND SPONSORSHIP

Table 2 illustrates the framework of our findings.

Table 2: Framework of Findings

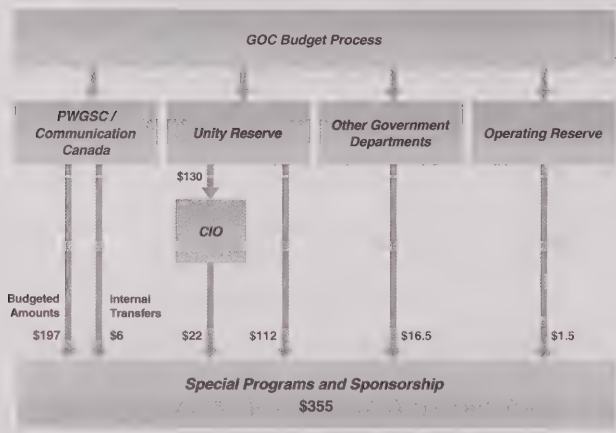
SOURCE OF FUNDS	USE OF FUNDS	ANALYSIS OF SELECTED CONTRACTS	ANALYSIS OF COMMUNICATION AGENCIES
Source of SPECIAL PROJECTS AND SPONSORSHIP (SPS) funds	SPS ▲Flow of funds ▲Contracts ▲Expenditures	SPS Analysis of selected SPS contracts	▲Business description ▲Selection process ▲Contracts with Government of Canada
Source of ADVERTISING contract funds	ADVERTISING ▲Flow of funds ▲Contracts ▲Expenditures	ADVERTISING Analysis of selected advertising contracts	▲Management of contracts ▲Financial analysis ▲Other

3.1

Source of Special Programs and Sponsorship Funds—\$355 million

Our analysis of GOC funding has determined that during the period April 1, 1994 through to March 31, 2004, \$355 million was allocated to Advertising and Public Opinion Research Sector ("APORS")/Communications Coordination Services Branch ("CCSB")/Communication Canada for "SPS" contracts, that is contracts which have been issued for sponsorship, public opinion research, special projects, advertising, and the purchasing of promotional items. For purposes of this report we have grouped these contracts together and will refer to these as SPS contracts. The following diagram depicts the sources of funding identified.

Table 3: Sources of Funds Received for SPS Contracts  
(\$ millions)



Schedule I to this report provides a yearly summary by GOC fiscal year of the sources of this funding.

This \$355 million includes funding for SPS activities in GOC fiscal years 1994-95 to 1996-97 which was three years prior to the GOC fiscal year 1997-98 identified in the November 2003 report of the Auditor General

as the year the Sponsorship Program began. The amounts expended beginning in 1994 have been included because the activities for which the funding was utilized were similar in nature to those Sponsorship activities undertaken after April 1, 1997.

Furthermore, while SPS contracts were under the control of Public Works and Government Services Canada ("PWGSC"), the SPS contracts were primarily accounted for in the "Special Programs" account within PWGSC's accounting system. The Special Programs account was an account which was under the control of Mr. Joseph Charles Guité ("Mr. Guité ") during his term as head of APORS and CCSB and later by Mr. Pierre Tremblay ("Mr. Tremblay") during his tenure.

The funding noted above was provided to PWGSC for the period of 1994-95 through to September 2001 and to Communication Canada after September 2001.

Section 6.1 of this report comments in detail about each of the specific sources of funding identified above.

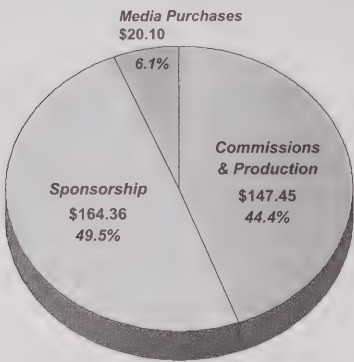
### 3.2

#### Use of Special Program and Sponsorship Funds—\$332 million

##### 3.2.1 Summary by Contract Category

Our review has determined that \$332 million of the \$355 million allocated to APORS/CCSB/Communication Canada was committed for SPS contracts; \$164 million or 49% for Sponsorships and \$168 million or 51% for agency production costs, commissions and media purchases.

Table 4: Summary of Total SPS Contracts by Expenditure Categories (\$ millions)



Advertising agencies and other third parties, collectively referred to as communication agencies, managed these SPS contracts to the extent of \$305.1 million while Communication Canada managed sponsorships to the extent of \$26.8 million.

Table 5 illustrates the contract values managed by communication agencies and the contract values internally managed.

Table 5: Management of Special Project and Sponsorship Funds— (\$ millions)

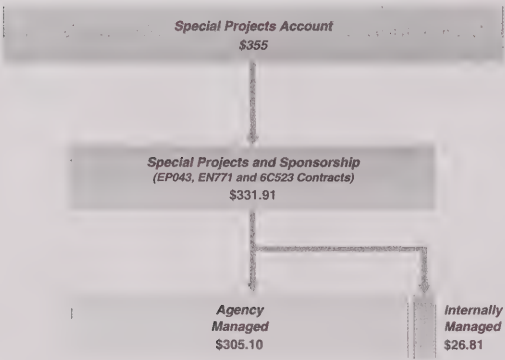


Table 6 is a summary of these amounts by year.

Table 6: Summary by Year of SPS Contract Details for Agency Managed and Internally Managed Contracts  
(\$ millions)

Year	Media Purchases	Sponsorship	Agency Commission <sup>1</sup>	Production	Total
<b>Agency Managed Contracts</b>					
1994-95	0.74	-	0.13	1.20	2.07
1995-96	6.79	1.76	1.38	12.03	21.96
1996-97	1.55	2.38	0.29	26.57	30.79
1997-98	4.75	22.58	2.91	21.31	51.55
1998-99	6.27	23.61	4.63	26.90	61.41
1999-00	-	25.84	3.78	17.86	47.48
2000-01	-	25.41	3.76	10.81	39.98
2001-02	-	30.25	4.54	5.77	40.56
2002-03	-	8.00	1.19	0.11	9.30
Total Agency Managed	<u>20.10</u>	<u>139.83</u>	<u>22.61</u>	<u>122.56</u>	<u>305.10</u>
<b>Internally Managed Contracts</b>					
2001-02	-	-	-	1.40	1.40
2002-03	-	11.12	-	0.14	11.26
2003-04	-	13.41	-	0.74	14.15
Total Internally Managed	<u>-</u>	<u>24.53</u>	<u>-</u>	<u>2.28</u>	<u>26.81</u>
<b>Total</b>	<u>\$20.10</u>	<u>\$164.36</u>	<u>\$22.61</u>	<u>\$124.84</u>	<u>\$331.91</u>

A detailed listing of the contracts is attached as Schedule 2.

<sup>1</sup> Agency commission includes commissions in relation to media purchases as well as commissions related to sponsorship.

3.2.2 Summary by Agency and Contract Category

Tables 7 and 7a provide summaries of the agency managed contracts organized by the communication agency responsible for the contract and by category of expenditures.

Table 7: Summary of Total SPS Contracts by Agency

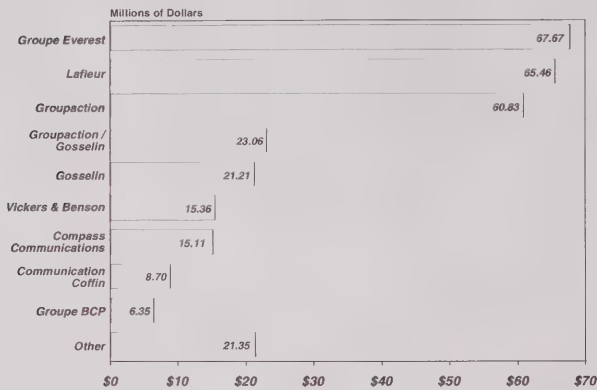


Table 7a: Summary of Total SPS Contracts by Agency and Expenditure Categories (\$ millions)

Managing Agency	Media Purchases	Sponsorship	Agency Commission	Production	Total
Groupe Everest	2.97	28.34	4.19	32.17	67.67
Lafleur	1.91	26.20	4.15	33.20	65.46
Groupaction	6.52	37.21	5.87	11.23	60.83
Groupaction/ Gosselin	-	13.00	1.91	8.15	23.06
Gosselin	0.08	11.31	1.58	8.24	21.21
Vickers and Benson	3.40	-	0.60	11.36	15.36
Compass Communications	0.71	7.79	1.30	5.31	15.11
Communication Coffin	-	5.39	0.78	2.53	8.70
Groupe BCP	3.40	0.03	0.61	2.31	6.35
Other	1.11	10.56	1.62	8.06	21.35
Total Managed by Agencies	20.10	139.83	22.61	122.56	305.10
Managed by Communication Canada	-	24.53	-	2.28	26.81
Total Contracts	20.10	164.36	22.61	124.84	331.91

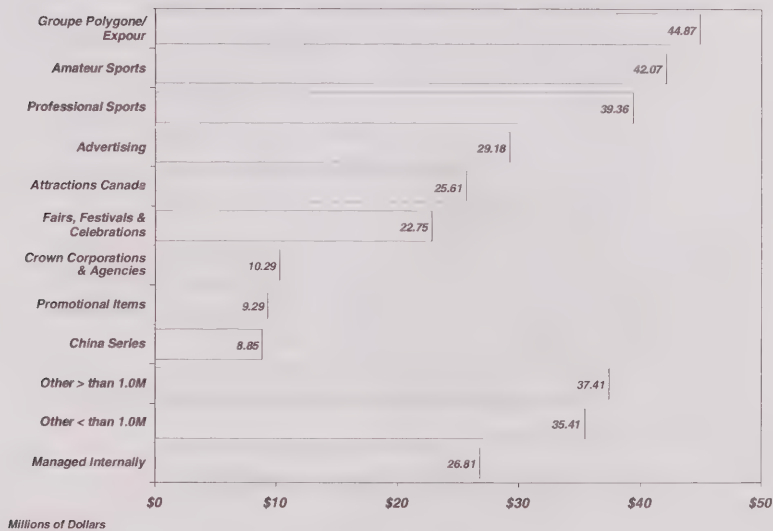
A detailed listing of these contracts is attached as Schedule 3.



### 3.2.3 Nature of SPS Expenditures

Kroll has organized the SPS expenditures in a manner which identifies significant events and categories or types of events. The categorization has been done with reliance on the name and description of the event as identified in the SPS contract documentation. Table 8 provides a summary of the total contract values by type of events.

Table 8: Summary by Event Category of SPS Contracts



Section 6.2.3 and Appendix F provides our detailed commentary on the above-noted event categories. A detailed listing of the events in each category is attached as Schedule 4.

3.3

Analysis of Selected Special Program and Sponsorship Contracts

3.3.1 SPS Contracts Sampled

Kroll selected a sample of SPS contracts from the years 1996-97 to 2000-01, for purposes of reviewing invoices and underlying supporting documents in respect of billings to PWGSC.

We selected our sample contracts from this period because:

- i) Documentation was limited with respect to the years 1994-95 and 1995-96;
- ii) The problems identified by PWGSC internal audit relating to the management of the Sponsorship programs occurred primarily during this period; and
- iii) An action plan was initiated in October 2000 to rectify the problems, including the transfer of the Sponsorship Program to Communication Canada in September 2001.

A summary of the contracts we reviewed compared to total SPS contracts for the period is as follows:

Table 9: Summary of Selected SPS Contracts Reviewed by Kroll  
(\$ millions)

	Total Contracts During the Period	Contracts Reviewed by Kroll	Percentage of Total Contracted
Sponsorships	99.82	94.78	95.0%
Agency Commission	15.37	13.61	88.6%
Media Purchases	12.57	5.96	47.4%
Production	<u>103.45</u>	<u>96.19</u>	93.0%
Total	<u>\$231.21</u>	<u>\$210.54</u>	91.2%

A detailed listing of the contracts is attached as Schedule 5.

Our review of the invoices and underlying documents for this sample of contracts indicated there were invoices in PWGSC files from the communication agencies supporting \$209.67 million, being 99.6% of the total. At this time, we are unable to determine whether or not the balance of the contracted amounts were billed by the agencies.

With respect to the invoices which were in the files, we noted varying degrees of detail and information contained in them or in underlying supporting documentation. For example, some provided details of hours being billed by name or level of person, some only provided a total lump sum, some provided a listing of subcontracted work and provided underlying supporting documentation while others indicated a total on a single line with little or no supporting documentation.

### 3.3.2 Analysis of Sponsorship and Agency Production Costs

For the \$210.54 million of contracts selected by Kroll, based primarily on the information in the PWGSC files, in summary, we determined that 45.4% was invoiced for payments directly to the sponsorees, 27.8% of the contract values were invoiced for work done by agencies and related parties, and the balance, 26.4%, was invoiced for work done by third parties. Table 10 below summarizes our findings in this regard.

Table 10: Kroll Analysis of Selected SPS Contracts 1996-97 to 2000-01  
(\$ millions)

	96-97	97-98	98-99	99-00	00-01	Total	Percentage
Sponsorships	5.38	18.39	22.79	24.74	24.30	95.60	45.4%
<b>Amounts Invoiced for Work Done by Agencies and Related Parties</b>							
Agency Sponsorship Commissions	0.61	2.16	2.73	2.95	2.92	11.37	
Agency Production	1.60	3.72	0.91	0.15	-	6.38	
Agency Time Charges	3.58	5.72	7.00	5.35	1.58	23.23	
Agency Commissions <sup>1</sup>	1.17	2.40	1.85	1.72	1.05	8.19	
Subcontracted to Related Party	<u>1.52</u>	<u>1.95</u>	<u>3.01</u>	<u>1.85</u>	<u>1.09</u>	<u>9.42</u>	
<b>Total Invoiced for Work Done by Agencies and Related Parties</b>	<b>8.48</b>	<b>15.95</b>	<b>15.50</b>	<b>12.02</b>	<b>6.64</b>	<b>58.59</b>	<b>27.8%</b>
<b>Amounts Invoiced for Work Done by Third Party</b>							
Subcontracted to Unrelated or Unknown Party	10.96	8.51	9.58	7.41	4.05	40.51	
AOR Commission	-	-	0.65	0.69	0.71	2.05	
Media Purchases	<u>0.03</u>	<u>6.77</u>	<u>3.93</u>	<u>0.84</u>	<u>1.35</u>	<u>12.92</u>	
<b>Total Invoice for Work Done by Third Party</b>	<b>10.99</b>	<b>15.28</b>	<b>14.16</b>	<b>8.94</b>	<b>6.11</b>	<b>55.48</b>	<b>26.4%</b>
Unspent Amounts or Invoices Not Located	-	0.31	0.22	0.14	0.20	0.87	0.4%
<b>Total Contract Value</b>	<b>\$24.85</b>	<b>\$49.93</b>	<b>\$52.67</b>	<b>\$45.84</b>	<b>\$37.25</b>	<b>\$210.54</b>	<b>100.0%</b>

A summary, by contract, supporting this table is attached as Schedule 6. For the contracts we reviewed, 99.6% of the contract values were billed indicating that the agencies billed up to the full extent of the contracts.

Other findings from our contract review are noted in Sections 5.4 and 6.3 of this report.

### 3.3.3 November 2003 Report of the Auditor General

The Auditor General ("AG") in her report of November 2003, referred to Sponsorship contracts totaling \$250 million. The categories of the contracted amounts stipulated in the contract documents were as follows:

<sup>1</sup> Includes commissions on subcontracted amounts and media purchases.

Table 11: Summary of Contract Details for Contracts Referred to in the Auditor General's Report

	<u>\$ Millions</u>	<u>Percentage</u>
Sponsorships	<u>145.7</u>	<u>57%</u>
Agency Commission	19.9	8%
Media Purchases	6.9	3%
Production	<u>81.1</u>	<u>32%</u>
Total Agency Commissions, Media Purchases and Production	<u>107.9</u>	<u>43%</u>
Total Contracts	<u>\$253.6</u>	<u>100%</u>

A detailed listing of the contracts is attached as Schedule 7.

The difference between the value of SPS contracts noted in the AG's report and the listing of SPS contracts in this report relates primarily to the time period covered by each report. Specifically Kroll's listing of SPS contracts include SPS contracts from 1994-95 to 1996-97 and contracts in 2000-04 which were not included in the AG's audit.





## SECTION FOUR

## SUMMARY OF FINDINGS— ADVERTISING CONTRACTS

### 4.1

#### Source of Advertising Contract Funds—\$1.1 billion

The GOC annual budgeting process approved departmental spending authorities. These departmental spending authorities included sufficient funds to allow departments to issue contracts totaling at least \$1.1 billion for departmental advertising between April 1, 1994 and March 31, 2003. Amounts budgeted for advertising varied by department and by year depending on the initiatives to be undertaken by the department.

PWGSC managed some advertising contracts on behalf of other departments, most notably Canada Mortgage and Housing Corporation ("CMHC") and the Canada Information Office ("CIO") and received transfers of funds from those and other departments to fund advertising activities. Additionally PWGSC had amounts allocated to it for advertising as part of the annual budgeting process.

As indicated in Section 6.I, the Unity Reserve provided all of the funding for the CIO between 1996-97 and 2000-01. Therefore CIO's \$22.9 million of advertising up to fiscal 2000-01 appears to have been funded by the Unity Reserve.

Table 12: Sources of Funds Received for Advertising Contracts



4.2

Use of Advertising Funds by GOC - \$1.1 billion

4.2.1 Summary by Year

Kroll prepared a list of advertising contracts from the available PWGSC records and other documentation.

Table 13 summarizes these contracts by year.

Table 13: Summary by Year of the Total Dollar Value of Identified Advertising Contracts Issued by the GOC (\$ millions)

<b>Fiscal Year</b>	<b>Contracts for Media Purchases</b>	<b>Contracts for Work by Agencies</b>	<b>Total</b>
94-95	16.79	25.97	42.76
95-96	32.90	46.85	79.75
96-97	41.95	43.04	84.99
97-98	56.90	57.35	114.25
98-99	59.97	69.88	129.85
99-00	57.27	76.95	134.22
00-01	100.46	96.89	197.35
01-02	126.63	76.17	202.80
02-03	<u>101.42</u>	<u>34.33</u>	<u>135.75</u>
<b>Total</b>	<b><u>\$594.29</u></b>	<b><u>\$527.43</u></b>	<b><u>\$1,121.72</u></b>

Contracts for media purchases were, for the most part, with the Agency of Record ("AOR"). The AOR purchased media space on behalf of the GOC in accordance with a media plan developed by the communication agency.

#### 4.2.2 Summary by Department

The twelve departments listed in Table 14, accounted for 84% of the identified advertising contracts entered into by the GOC. These amounts exclude advertising initiatives totaling approximately \$29.18 million undertaken by the GOC that were funded through the SPS contracts.

Table 14: Summary by Department of the Total Dollar Value of Identified Advertising Contracts (\$ millions)

	Media Purchases	for Work by Agencies	Total Contracts
Canadian Tourism Commission	61.20	167.56	228.76
Industry Canada	51.05	72.80	123.85
Finance Canada	79.12	36.79	115.91
Health Canada	58.67	45.00	103.67
National Defence	67.38	13.83	81.21
Human Resources Development Canada	63.58	14.53	78.11
Natural Resources Canada	35.49	18.07	53.56
Canada Information Office	28.78	13.06	41.84
Justice Canada	29.94	7.98	37.92
Heritage Canada	7.78	27.87	35.65
Public Works & Government Services Canada	6.93	17.00	23.93
Canada Customs and Revenue Agency	<u>9.59</u>	<u>8.75</u>	<u>18.34</u>
	499.51	443.24	942.75
All Other Departments	<u>94.78</u>	<u>84.19</u>	<u>178.97</u>
<b>Total Contracts</b>	<u>\$594.29</u>	<u>\$527.43</u>	<u>\$1,121.72</u>

#### 4.2.3 Summary by Agency

Our review determined that between April 1, 1994 and March 31, 2003 communication agencies were involved with advertising either as the agency responsible for production or, in the case of contracts with the AOR, as the agency responsible for the media plan. Table 15 lists the total dollar value of communication agency managed contracts.

Table 15: Summary by Managing Communication Agency of the Total Dollar Value of Identified Advertising Contracts<sup>1</sup>  
(\$ millions)

Managing Communication Agency	Contract Type		
	Media Purchases <sup>1</sup>	Production and Full Service <sup>2</sup>	Total Contracts
Vickers & Benson	91.24	186.33	277.57
BCP	73.47	86.26	159.73
Groupaction Marketing	81.32	30.12	111.44
Allard Johnson Communications Inc.	65.00	14.98	79.98
Genesis Media (no agency indicated)	49.37	6.06	55.43
Groupe Everest	15.11	25.34	40.45
Focus Strategies	25.46	13.24	38.70
Gingko Group	15.09	10.92	26.01
McKim Communications	12.10	12.79	24.89
Bowen & Binstock	16.33	5.36	21.69
LBJ.FRB Communications Inc.	14.88	2.99	17.87
Média / I.D.A. Vision (no agency indicated)	17.13	-	17.13
Acart Communications	14.49	1.97	16.46
Palmer Jarvis Advertising	6.94	8.17	15.11
Freeman, Rodgers & Battaglia	11.53	3.33	14.86
Allard et Associés	4.28	10.51	14.79
Poirier Communications Ltd.	6.56	7.99	14.55
Scott Thornley & Co.	1.41	12.91	14.32
Ensemble Consortium (Groupaction, Vickers, Compass, Focus, Coffin)	9.33	4.20	13.53
Weaver Tanner & Miller Inc.	8.16	4.99	13.15
Vision 4 (Groupaction, Focus, Compass and Acart)	8.02	4.43	12.45
All Other Agencies	47.07	74.54	121.61
<b>Total Contracts</b>	<b>\$594.29</b>	<b>\$527.43</b>	<b>\$1,121.72</b>

A detailed listing of the contracts supporting Tables I3, I4, and I5 are attached as Schedules 8, 9 and I0.

<sup>1</sup> Includes contracts for media purchases for which the identified agency acted as the communication agency. The communication agency received a fee generally calculated as 11.75% of the gross value of media purchased by the AOR for the preparation of the media placement plan. The AOR received for its services, a fee of 3.25% of the gross value of the media placed. These commissions are included in the contracted amount.

<sup>2</sup> In a full service contract the communication agencies purchase the media as well as undertaking the production work. In a production contract the media purchases are done through the AOR.

4.3  
Analysis of Selected Advertising Contracts

4.3.1 Selected Advertising Contracts

Kroll selected a sample of advertising contracts totaling \$46.37 million from the years 1996-97 to 2001-02 for the purposes of reviewing invoices and underlying supporting documents in respect of billings to government departments including PWGSC. The sample represents 11% of the contracts issued during the period.

The selection of contracts chosen for detailed review included 19% of the advertising contracts issued by PWGSC and CIO. Table 16 provides a summary of the advertising contracts reviewed by Kroll.

Table 16: Summary of Advertising Contracts Reviewed by Kroll  
(\$ millions)

	Total Contracts During the Period	Contracts Reviewed by Kroll	Percent (%)
PWGSC <sup>1</sup> and CIO	61.90	11.47	19%
All Other Departments	<u>358.38</u>	<u>34.85</u>	10%
<b>Total</b>	<u>\$420.28</u>	<u>\$46.32</u>	11%

With respect to the invoices and supporting documentation, as with the SPS invoices, we noted varying degrees of detail and information contained in invoices and supporting documentation.

A detailed listing of contracts reviewed by Kroll is attached as Schedule II.

<sup>1</sup> Including amounts contracted on behalf of CMHC.



## 4.3.2 Analysis of Agency Services Including Production Costs

Table 17 provides a summary of the results of Kroll's review of advertising contracts by type of expenditure.

Table 17: Kroll Analysis of Selected Advertising Contracts  
(\$ millions)

	<u>Total</u>	<u>Percentage</u>
Sponsorships	0.46	1.0%
<b>Amounts Invoiced for Work Done by Agencies and Related Parties</b>		
Agency Sponsorship Commissions	0.05	
Agency Production	0.03	
Agency Time Charges	2.88	
Agency Commissions on Subcontracted Amounts	1.92	
Amounts Subcontracted to Related Party	<u>3.46</u>	
<b>Total Invoiced for Work Done by Agencies and Related Parties</b>	<u>8.34</u>	18.0%
<b>Subcontracted to Unrelated or Unknown Party</b>	26.00	56.1%
Unspent Amounts or Invoices not Located	<u>11.52</u>	<u>24.9%</u>
<b>Total Contract Value</b>	<u>\$46.32</u>	<u>100.0%</u>

A summary by agency supporting this table is attached as Schedule I2.

We note, in contrast to the SPS contracts we selected for review, the agencies appear to have billed only 75% of the contract values.

With respect to the specific advertising contracts we reviewed, we noted:

- i) Several instances in which "sponsorship" money was paid;
- ii) Billing to departments for agency services based on approved estimates rather than on actual hours incurred at the agreed contract rate; and
- iii) Commission of 17.65% charged on related party subcontracts.



## SECTION FIVE

## SUMMARY OF FINDINGS— COMMUNICATION AGENCIES

### 5.1

#### Agency Selection

##### 5.1.1 SPS Agency Selection

In February 1995, five agencies, Groupe Everest, BCP, Compass, Palmer Jarvis and Vickers & Benson, were chosen on the second day of Heritage Canada selection process. In an undated memo Mr. Guité indicated that these five agencies "will be included on the PWGSC/APORS qualified supplier list for possible communication/advertising contracts on behalf of APORS."

In June 1995 Consortium Lafleur was selected. This consortium included Lafleur together with Compass, Natcom Publicité, Freeman Roger Battaglia and SKS Advertising.

In an April 1997 selection process ten agencies were chosen. The ten included:

- Communication Coffin with SOS Communications
- Delta Media Inc.
- Freeman Rodgers Battaglia Inc.
- Goodman Communications Inc.
- Gosselin
- Groupaction
- Manifest Communications Inc.
- Publicité Martin Inc.
- Scott Thornley & Company Inc.
- Sparks Communications Inc.

In a May 2001 selection process, nine agencies were chosen to receive standing offers including:

- Armada
- Bristol Group
- Coffin
- Compass
- Everest
- Gosselin
- Groupaction
- Lafleur
- TNC Multicom Inc.

Table I8 summarizes the percentage, by dollar value of contracts managed by the agencies chosen in the four agency selection competitions.

Table 18: Summary of SPS Contracts Managed by Agencies

<b>Agencies Chosen in 1995, 1997 and 2001</b>	<b>Total Contracts</b>	<b>Percentage</b>
Groupe Everest	67.67	22.18%
Lafleur	65.46	21.46%
Grouppaction	60.83	19.94%
Grouppaction/Gosselin	23.06	7.56%
Gosselin	21.21	6.95%
Vickers and Benson	15.36	5.03%
Compass Communications	15.11	4.95%
Communication Coffin	8.70	2.85%
Groupe BCP	6.35	2.08%
Armada	4.60	1.51%
TNC Multicom	3.48	1.14%
Palmer Jarvis Advertising	2.83	0.93%
Publicité Martin	1.51	0.49%
Bristol Group	0.55	0.18%
Delta Media	0.24	0.08%
Communications Consultants	0.18	0.06%
SOS Communications	0.02	0.01%
Sparks	-	0.00%
Goodman	-	0.00%
Manifest	-	0.00%
Scott Thornley	-	0.00%
<b>Total for Agencies Chosen in 1995, 1997 and 2001</b>	<b>297.16</b>	<b>97.40%</b>
All Other Agencies	7.94	2.60%
<b>Total Agency Managed Contracts</b>	<b><u>305.10</u></b>	<b><u>100.00%</u></b>

### 5.1.2 Advertising Agency Selection

Sections 8 to 16 provide the details of the departmental selection competitions as they relate to each agency.

## 5.2

### Cash Flow to Agencies

Based on our analysis of the flow of funds for those agencies and sub-contractors described in Sections 8 to 16 of this report, we can provide the following summary comments:

- i) The entities received from 23% (Vickers & Benson) to 100% (Gosselin) of their revenues from GOC business.
- ii) For the periods in which the firms received GOC related revenues, profits from all sources of business totaled \$46.0 million<sup>1,2</sup>.
- iii) For the periods in which the firms received GOC related revenues, salaries and bonuses paid to their owners totaled \$51.2 million<sup>2</sup>.
- iv) For the periods in which the firms received GOC related revenues, contributions were made to or on behalf of political parties, totaling, at a minimum, \$801,627. If the amounts identified by Mr. Brault as payments for a political purpose are included, this amount rises to \$2.5 million<sup>2</sup>.
- v) Payments were made to Oro Communications totaling \$525,923. In addition, Société Immobilière Alexsim (controlled by Jean Brault) paid \$25,000 to Mr. Guité, Mr. Brault purchased a car for \$35,000 from Mr. Guité and Mr. Coffin purchased a boat for \$27,000 from Mr. Guité.

<sup>1</sup> Excludes net gains on sale of business by Groupe Everest and BCP.

<sup>2</sup> Includes Groupe Polygone, Expour and PluriDesign.

Included in this section of our report are summary flow of funds charts for those communications agencies and sub-contractors for which we have conducted financial analysis. These agencies and sub-contractor companies include the following:

Table	Communication Agency / Sub-contractors	Year	Detailed Findings Section
19	Lafleur Communications	1993 to 2001	8
20	Gosselin Communications	May 1997 to September 1998	9
21	Groupaction	1996 to 2001	10
22	Groupe Polygone and Expour	1997 to 2003	11
23	PluriDesign	1996 to 2004	12
23a	Jacques Corriveau Designer Inc.	1996 to 2004	12
24	Groupe Everest	1995 to 2002	13
25	Communication Coffin	1996 to 2003	14
26	Vickers and Benson	1996 to 2003	15
27	BCP	1994 to 2003	16





Table 20: Gosselin Communication - Flow of Funds (May 1997 to September 1998)



Table 21: Groupaction - Flow of Funds (1996 to 2001)

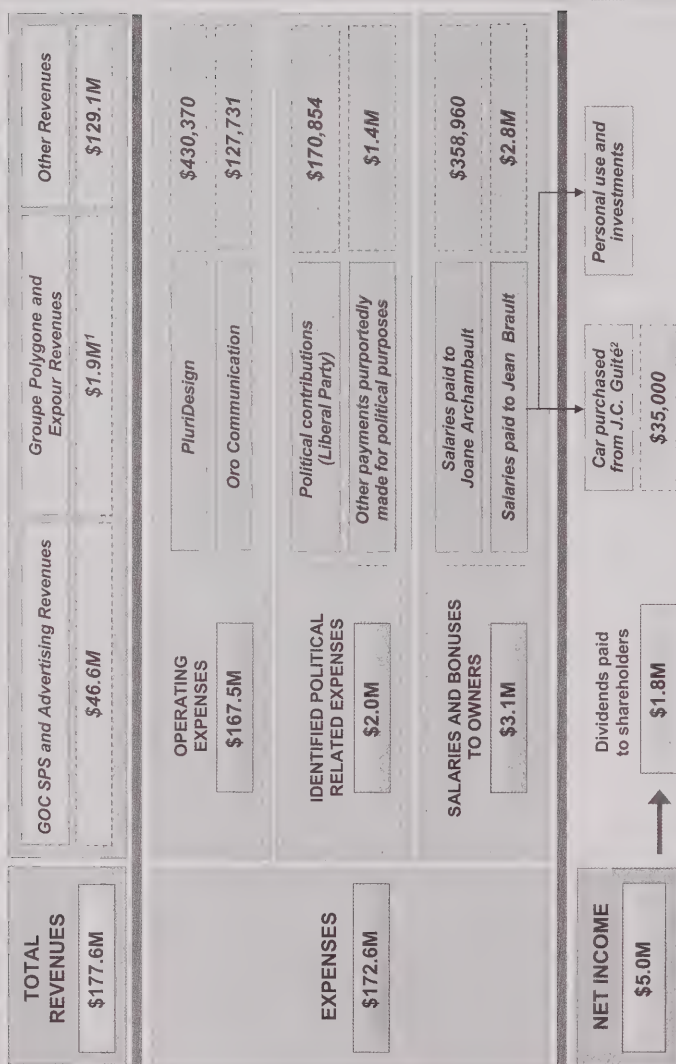
<sup>1</sup> Other companies related to Groupaction received \$163,750 from Groupe Polygone and Expour, for a total amount received of \$2,097,800.<sup>2</sup> Société Immobilière Alexism, controlled by Jean Brault, also paid \$25,000 to J.C. Guite.

Table 22: Groupe Polygone and Expour - Flow of Funds (1997 to 2003)

<b>TOTAL REVENUES</b>			
\$117.0M	Revenues from GOC Advertising and SPS Contracts	Revenues from other sources	
	\$38.6M	\$78.4M	
<b>EXPENSES</b>			
\$91.4M	PluriDesign	J. Brault Companies	
	\$5.8M	\$2.1M	
<b>INCOME BEFORE TAXES</b>			
\$25.6M	Income before taxes		
	\$25.6M		
<b>OTHER EXPENSES</b>			
\$11.5M	Income taxes	Losses on liquidation of companies	
	\$8.9M	\$2.6M	
<b>NET INCOME</b>			
\$14.1M	Groupe Polygone	Expour	Funds advanced or transferred into investment companies controlled by Luc Lemay
	\$14.8M	\$0.7M	\$13.5M
			\$1.7M
			\$2.7M
			\$11.8M

Table 23: PluriDesign - Flow of Funds (1996 to 2004)

<b>TOTAL REVENUES</b>	<b>\$10.1M</b>	<b>Liberal Party of Canada</b>	<b>Groupe Polygone and Expour</b>	<b>Revenues assoc. with Jean Lafleur</b>	<b>Groupaction</b>	<b>Other Sources</b>
		\$1.2M	\$5.8M	\$1.8M	\$0.4M	\$0.9M
<b>EXPENSES</b>	<b>\$8.7M</b>	<b>Salary and bonuses to Jacques Corriveau</b>	<b>Production Costs</b>	<b>Political Contributions (Liberal Party)</b>	<b>Other Expenses</b>	
		\$4.4M <sup>1</sup>	\$2.2M	\$42,974 <sup>2</sup>	\$2.1M	
<b>INCOME BEFORE TAXES</b>	<b>\$1.4M</b>	<b>Income before taxes</b>				
		\$1.4M				
<b>INCOME TAXES</b>	<b>\$0.3M</b>	<b>Income taxes</b>				
		\$0.3M				
<b>NET INCOME</b>	<b>\$1.1M</b>	<b>Dividends paid to Jacques Corriveau Designer Inc.</b>				
		\$1.1M				

<sup>1</sup> Consists of \$0.5M in gross salaries, \$1.6M in net bonuses (\$1.6M re-deposited into Jacques Corriveau Designer Inc.) and \$2.1M in taxes paid on the bonuses.

<sup>2</sup> Other contributions include: PluriDesign \$4,742 (1993-1995), Jacques Corriveau \$2,541 (1993-2003), Madeleine Corriveau \$2,027 (1993-2003) and Jacques Corriveau Designer Inc. \$905 (1993-2003), for a total of \$53,169 (1993-2003)

Table 23a: Jacques Corriveau Designer Inc. - Flow of Funds (1996 to 2004)

SOURCE OF FUNDS	\$3.3M			
	Re-investment of after tax bonuses received by Jacques Corriveau	Dividends from PluriDesign	Re-investment of dividends received by Jacques Corriveau	Other advances from Jacques Corriveau
	\$1.6M	\$1.1M	\$0.4M <sup>1</sup>	\$0.2M
	Cash and marketable securities left in investment company	Dividends paid to Jacques Corriveau	Payments of house renovations	Other payments to Jacques Corriveau
APPLICATION OF FUNDS	\$2.4M	\$0.4M <sup>1</sup>	\$0.4M	\$0.1M

<sup>1</sup> The dividends paid by Jacques Corriveau Designer Inc. to Jacques Corriveau were re-invested in the company.

Table 24: Groupe Everest - Flow of Funds (1995 to 2002)

<b>TOTAL REVENUES<sup>1</sup></b>	<b>GOC SPS and Advertising Revenues</b>	<b>Other Revenues</b>	<b>Oro Communication</b>
\$623.7M	\$476.2M	\$147.4M	\$60,000
<b>EXPENSES</b>	<b>OPERATING EXPENSES</b>	<b>IDENTIFIED POLITICAL RELATED EXPENSES</b>	<b>SALARIES AND BONUSES TO OWNERS &amp; DIANE DESLAURIERS</b>
\$612.0M	\$605.0M	\$105,139	\$6.9M
	Oro Communication	Political contributions (Liberal Party)	Claude Bouliay and Diane Deslauriers
	\$5,992	\$105,139	\$2.4M
<b>NET GAINS ON SALE (not of taxes)</b>	<b>NET GAINS ON SALE (not of taxes)</b>	<b>NET GAINS ON SALE (not of taxes)</b>	<b>NET GAINS ON SALE (not of taxes)</b>
\$33.4M	\$33.4M	\$33.4M	\$33.4M
<b>NET INCOME</b>	<b>Dividends paid to shareholders</b>	<b>Dividends paid to shareholders</b>	<b>Dividends paid to shareholders</b>
\$45.1M	\$31.0M	\$31.0M	\$31.0M
	\$25.5M	\$25.5M	\$25.5M
	Personal use & investments	Political contributions (Liberal Party)	Personal use & investments
	\$5.5M	\$14,192	\$5.5M
		Political contributions (Liberal Party)	Political contributions (Liberal Party)
		\$8,687	\$8,687

<sup>1</sup> Based on combined financial statements, including Media I.D.A. Vision

Table 25: Coffin - Flow of Funds (1996 to 2003)

<b>TOTAL REVENUES</b>			
\$6,028,083			
	<b>GOC SPS and Advertising Revenues</b>	<b>Other Revenues</b>	
	\$4,908,401	\$1,047,682	
	<b>OPERATING EXPENSES</b>		
	\$4,627,907	Oro Communication	\$20,600
		Political contributions (Liberal Party)	\$29,300
<b>EXPENSES</b>		Political contributions (Conservative Party)	\$400
\$5,670,510			
	<b>SALARIES AND BONUSES TO OWNERS</b>		
	\$1,012,903	Salaries paid to Coffin family	\$1,012,903
		Dividends paid to Coffin family	\$223,095 <sup>1</sup>
		Coffin family	
<b>NET INCOME</b>			
\$357,573			
		Coffin family boat (purchased from J.C. Gulté)	\$27,000

<sup>1</sup> \$130,595 paid in 1996 relating to pre -1996 earnings.



Table 26: Vickers and Benson Companies Ltd. (VCBL) - Flow of Funds (1996 to 2003)

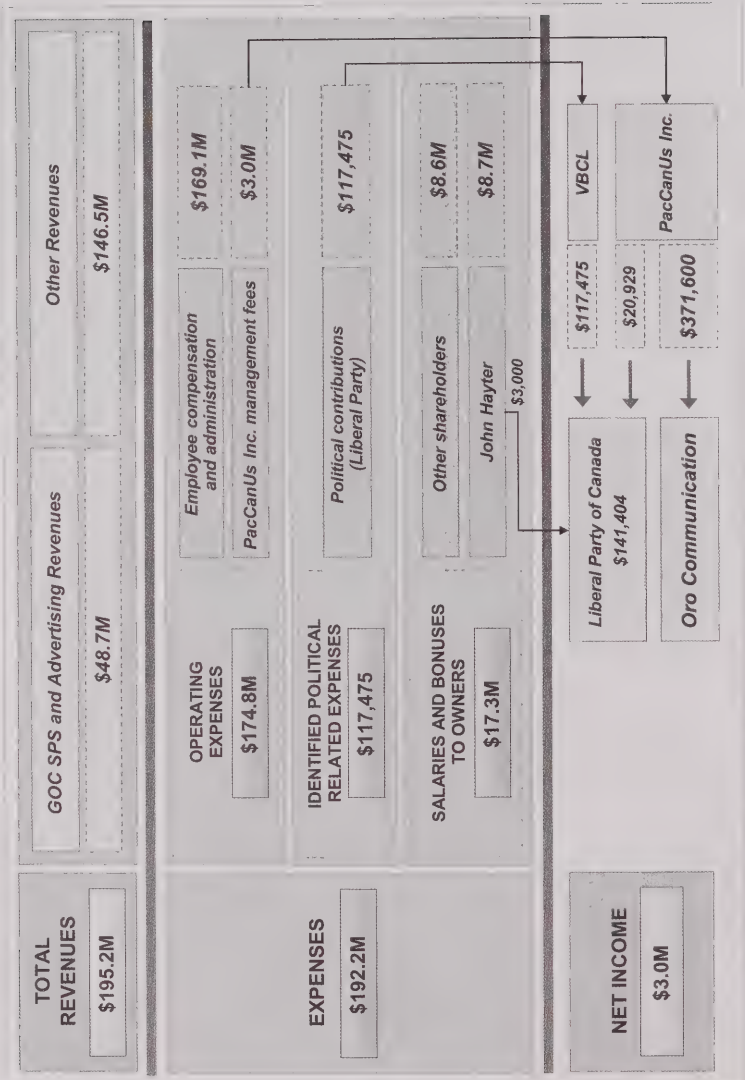




Table 27: BCP Ltée (BCP) - Flow of Funds (1996 to 2003)

<b>TOTAL REVENUES</b>	<b>\$90.7M</b>	<b>GOC SPS and Advertising Revenues</b>	<b>\$37.8M<sup>1</sup></b>	<b>Other Revenues</b>	<b>\$51.3M</b>	<b>Dividends received in 1994 and 1995</b>	<b>\$1.6M</b>
<b>GAINS ON SALE</b>	<b>\$12.4M</b>	<b>GAINS ON SALE OF INVESTMENTS (1996)</b>					
<b>EXPENSES</b>	<b>\$80.3M</b>	<b>OPERATING EXPENSES</b>	<b>\$73.1M</b>	<b>IDENTIFIED POLITICAL RELATED EXPENSES</b>	<b>\$97,720</b>	<b>Political contributions (Liberal Party)</b>	<b>\$97,720</b>
		<b>SALARIES AND BONUSES TO OWNERS</b>	<b>\$1.6M</b>	<b>SALARIES AND BONUSES TO OWNERS</b>	<b>\$1.6M</b>	<b>Salaries paid to Yves Gougoux</b>	<b>\$1.6M</b>
<b>NET INCOME</b>	<b>\$22.8M</b>	<b>NET INCOME</b>					
		<b>Dividends paid to shareholders</b>					
		<b>\$20.3M<sup>2</sup></b>					

<sup>1</sup> This amount includes \$15.4M of advertising revenues from Crown Corporations.<sup>2</sup> Of this amount, approximately \$6M relates to dividends paid from operations during the period BCP received GOC revenues referred to above

5.3

Agency Payments to or on Behalf of Political Parties

We reviewed the available books and records of the agencies and related companies and individuals and the Elections Canada website to compile a list of payments made by these communication agencies, companies and individuals to or on behalf of political parties. Table 28 lists political contributions made purportedly, both directly to the parties or indirectly, on behalf of a political party.

Table 28: Agency Payments to or on behalf of Political Parties  
(\$ millions)

Company and related parties	Direct	Indirect <sup>1</sup>	Total
Lafleur	75,304		75,304
Gosselin	5,407		5,407
Groupaction <sup>2</sup>	170,854	1,763,587	1,934,331
PluriDesign Canada Inc. <sup>3</sup>	53,190		53,190
Expour/Groupe Polygone	23,361		23,361
Groupe Everest <sup>4</sup>	194,832		194,832
Coffin	29,300		29,300
Vickers & Benson <sup>4</sup>	151,659		151,659
BCP	<u>97,720</u>		<u>97,720</u>
<b>Total</b>	<b><u>\$801,627</u></b>	<b><u>\$ 1,763,587</u></b>	<b><u>\$2,565,214</u></b>

<sup>1</sup> Per allegation by Mr. J. Brault, the actual amount paid to Liberal Party is unknown.

<sup>2</sup> Includes Alleluia Design and Impact Splash.

<sup>3</sup> Includes J. Corriveau and his family.

<sup>4</sup> Includes related companies and individuals.

## 5.4

## Contract Management by Agencies

As noted in Sections 8 through 16 of this report, we have reviewed available agency records with respect to specific events. Our review disclosed certain potential irregularities, improprieties and contracting issues in the management of contracts both by the government departments and by the agencies. As more fully described in the individual sections we noted agencies which:

- Billed more hours for professional services to PWGSC than were recorded in agency records for a specific event;
- Billed PWGSC for fees that were already paid by PWGSC via the AOR;
- Billed PWGSC based on approved estimated costs (a fixed fee) while the contract required billing based on approved hourly rates and actual hours incurred;
- Billed costs incurred to PWGSC before a contract was in place;
- Charged 17.65% commission on work sub-contracted to related parties;
- Passed on to PWGSC a substantial mark-up on promotional items purchased from a related supplier;
- Billed sub-contractor labour costs at full agency contract labour rates instead of the actual cost plus 17.65%;
- Did not obtain competitive quotes for sub-contracted work in excess of \$25,000; and
- Charged a finder's fee or commission to a sponsoree while collecting a commission from PWGSC for being the communication agency.



## SECTION SIX

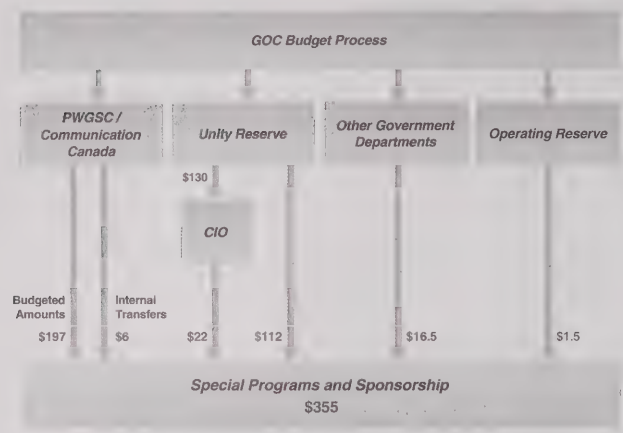
# DETAILED FINDINGS— SPECIAL PROGRAMS AND SPONSORSHIP CONTRACTS

## 6.1

### Source of Funds

As noted in Section 3.1, our analysis of GOC funding has determined that during the period April 1, 1994 through to March 31, 2004, \$355 million was allocated and transferred to APORS/CCSB/Communication Canada for the payment of SPS contracts. The following diagram depicts the sources of the \$355 million.

Table 29: Sources of Funds Received for SPS Contracts  
(\$ millions)



6.I.I Operating Budget - \$197 million

As noted in the diagram above, one of the primary sources of funding utilized for the payment of SPS contracts was funding provided in the PWGSC/Communication Canada annual budget.

Summarized below is our understanding, on an overview basis, of the yearly budget process:

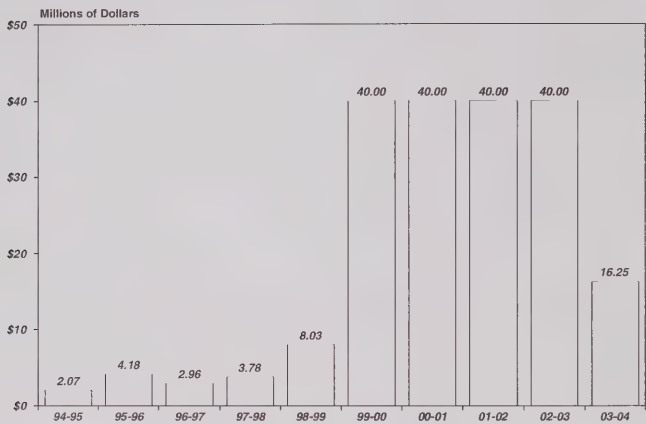
**Government of Canada Budgeting Departmental Funding Process**

1. In October/November in advance of the new fiscal year commencing April 1, departments make submission to the Treasury Board ("TB") seeking annual approval of departmental budgets. This process is referred to as the Annual Reference Level Update ("ARLU"). The ARLU process then provides the basis for the establishment of the Departmental Main Estimates which form part of the GOC's expenditure plan, referred to as the Budget/Fiscal Framework.<sup>1</sup>
2. Each year Parliament approves Departmental Main Estimates which establish a departmental spending authority (votes).
3. In addition, Parliament receives "Reports on Plans and Priorities" ("RPPs") which include the individual expenditure plans for each department.
4. The amount of approved spending authority that a department utilizes is controlled by TB. For example, while Parliament may have approved \$2 billion as the departmental authority for PWGSC, TB may withhold a portion of that authority and only provide PWGSC with authority to spend \$1.9 billion. This withheld amount is referred to as a "frozen allotment."
5. We understand that based on the spending authority provided by the TB, PWGSC would establish the budget for each branch and in turn the budgets would be established for the various operations within the branch.
6. If during a year a department wishes to increase its spending authority, it makes a submission to TB. If there exists a frozen allotment of the original Parliamentary Spending Authority sufficient to satisfy the increased funding request, then a submission to Parliament is not required. If a frozen allotment does not exist, then a Supplemental Estimate is tabled with Parliament to provide the department with increased spending authority.

<sup>1</sup> As per TB Statement of Evidence, Exhibit P-10.

The following Table summarizes annual PWGSC/ Communication Canada operating budget funding for SPS:

Table 30: Summary PWGSC/Communication Canada Yearly Budget Funding for SPS Initiatives



The amounts identified for GOC fiscal years 1994-95 to 1997-98 represent the operating budget for "Special Programs" within APORS/CCSB included in the PWGSC Operating Budget. We have identified this amount based on an examination of accounting records related to the Special Program account.

In 1998-99, the original budget amount available for SPS was increased from \$3.03 million to \$8.03 million. This additional \$5 million was received because of a submission to TB and related Supplementary Estimate which received Parliamentary approval.

The amounts noted above for 1994-95 to 1998-99 were not specifically identified in the details of the budget included in the RPPs provided to Parliament.

For GOC fiscal years 1999-00 to 2001-02, TB Approvals indicated that \$40 million per year of funding was provided to PWGSC for purposes of SPS. This \$40 million was included in the overall budget for CCSB but the



budget for CCSB did not specifically identify or segregate the \$40 million in the yearly RPP for PWGSC which was provided to Parliament for use in approval of the overall GOC budget.

In September 2001, CCSB's functions were transferred to Communication Canada. The yearly funding of \$40 million for SPS was also transferred based on TB documentation. Communication Canada's RPP did not distinguish the \$40 million from the remainder of its planned spending identified in the RPP for 2002-03. In GOC fiscal 2003-04, the RPP provided to Parliament identified that \$30.25 million was included in the Main Estimates for Communication Canada related to contributions in support of activities and projects to increase the understanding and appreciation of Canadian identity and to develop social awareness. This amount was subsequently reduced by \$11.0 million due to the establishment of a frozen allotment by TB. The amount was then also reduced by \$3 million as the result of Supplemental Estimates which transferred the funds to a newly established Grants Program. The above adjustments resulted in the identified funding of \$16.25 million for 2003-04.

#### 6.1.2 Intra-Departmental Transfers - \$6 million

As depicted in Schedule I to this report, during the period GOC fiscal 1994-95 to GOC fiscal 2003-04 we have identified two years in which APORS/CCSB received additional funding for SPS from other branches within PWGSC and we noted three years in which funds available for SPS were transferred to other branches within PWGSC.

In GOC fiscal years 1997-98 and 1998-99, \$2.0 million and \$8.48 million respectively were transferred from other branches within PWGSC to APORS/CCSB for payment of SPS. The above funding for both years originated from the Corporate Services Reserve Account within PWGSC. Neither Mr. Guité nor Mr. Tremblay had authority over the Corporate Services Reserve Account. Documentation available for our review for 1998-99 indicates that \$7.1 million of the \$8.48 million was approved by the Deputy Minister Ran Quail of PWGSC based on his discussions with Minister Gagliano of PWGSC.

In GOC fiscal 1999-00, \$3.075 million of the transfers from previous years were repaid by CCSB resulting in a reduction in the overall available funding for sponsorship initiatives.

For GOC fiscal 2000-01 and 2001-02 there were additional withdrawals of \$139,900 and \$1.12 million respectively of funding that were transferred out of funds available for sponsorship initiatives. Of this amount \$1.11 million was transferred to fund advertising contracts not considered part of the Special Programs account. The remaining balance was utilized to repay expenses incurred outside the Special Programs account.

#### 6.1.3 Funds Directly from Unity Reserve - \$112 million

TB supplied an accounting for allocations from the Unity Reserve. A copy of this schedule is provided as Appendix G to this report. The TB Summary identified some \$660.1 million as having been drawn from the Unity Reserve for GOC fiscal years 1995-96 through 2001-02. Of this amount, \$111.8 million was allocated to PWGSC, via TB Submissions, for the payment of SPS.

The following table summarizes our findings related to the process under which the funds were allocated from the Unity Reserve to PWGSC for purposes of funding SPS:

Table 31: Summary of Yearly Allocations From the Unity Reserve to PWGSC for SPS Initiatives

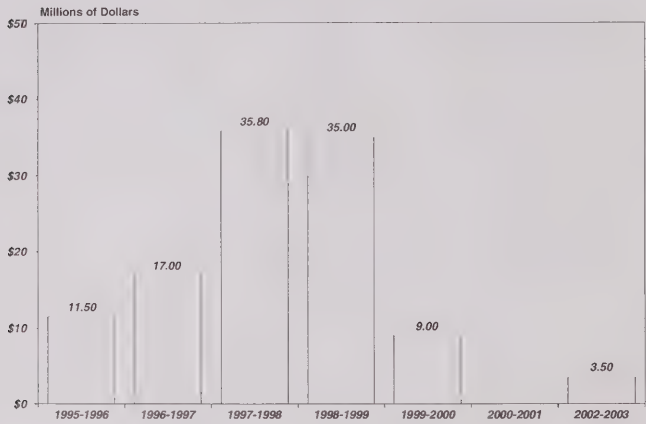
Year	Amount	Vehicle	Authorization	Comments
1995-96	\$11,500,000	Two separate submissions to TB <ul style="list-style-type: none"> <li>• \$10 million; and</li> <li>• \$1.5 million</li> </ul>	<ul style="list-style-type: none"> <li>• Prime Minister (PM*) of Canada<sup>1</sup></li> <li>• TB</li> </ul>	<ul style="list-style-type: none"> <li>• TB approvals indicate funding related to Canadian unity related advertising and Public Opinion research activities<sup>a</sup></li> </ul>
1996-97	\$17,000,000	Single TB submission for \$17 million in 1996-97 and \$17 million in 1997-98 <ul style="list-style-type: none"> <li>• Frozen allotment for 1996-97</li> </ul>	<ul style="list-style-type: none"> <li>• PM of Canada<sup>1</sup></li> <li>• TB</li> </ul>	<ul style="list-style-type: none"> <li>• Submission identified funding requirements as related to "communications priorities of the Government of Canada."</li> <li>• Included list of specific projects to be funded</li> </ul>
1997-98	\$35,800,000	Two separate submissions to TB <ul style="list-style-type: none"> <li>• \$17 million (TB inclusion in PWGSC Main Estimates 1997-98); and</li> <li>• \$18.8 million (via Supplemental Estimate)</li> </ul>	<ul style="list-style-type: none"> <li>• PM of Canada<sup>1</sup></li> <li>• Parliament</li> <li>• TB</li> <li>• PM of Canada<sup>1</sup></li> <li>• Parliament</li> </ul>	
1998-99	\$35,000,000	TB approved inclusion in PWGSC's Main Estimates under "Other Operating Costs"	<ul style="list-style-type: none"> <li>• PM of Canada<sup>2</sup></li> <li>• Parliament</li> <li>• TB</li> </ul>	<ul style="list-style-type: none"> <li>• Parliament approved Main Estimate</li> <li>• Funding received via 2 memoranda from the Privy Council Office (PCO) to TB indicating PM approved allocations in the amounts of \$17 and \$18 million respectively</li> </ul>
1999-00	\$9,000,000	TB submission <ul style="list-style-type: none"> <li>• Frozen allotment</li> </ul>	<ul style="list-style-type: none"> <li>• PM of Canada<sup>1</sup></li> <li>• TB</li> </ul>	
2001-02	\$3,500,000	TB Submission then Supplementary Estimates	<ul style="list-style-type: none"> <li>• PM of Canada<sup>2</sup></li> <li>• Parliament</li> <li>• TB</li> </ul>	<ul style="list-style-type: none"> <li>• Authorization via two PCO memoranda (\$2 and \$1.5 million respectively) confirming PM's approval</li> </ul>
	<b>\$111,800,000</b>			

Authorization from the Prime Minister was obtained via his signature approving the TB submission.

<sup>a</sup> The Prime Minister's authorization is indicated in a PCO memorandum.

Table 32 illustrates the yearly allocations directly from the Unity Reserve to PWGSC for SPS contracts.

Table 32: Summary of Yearly Allocations Directly From the Unity Reserve to PWGSC for SPS Contracts



The TB Submissions did not describe the allocations as being for the "Sponsorship Program" but typically described the purposes of the allocations as being for the communication priorities of the GOC, including public opinion research, advertising and participation in special events related to unity and/or federal presence. In early TB Submissions (1996-97 to 1997-98), the SPS to be funded were identified in attachments to the TB Submissions.

6.I.4 Canadian Information Office - \$21.9 million

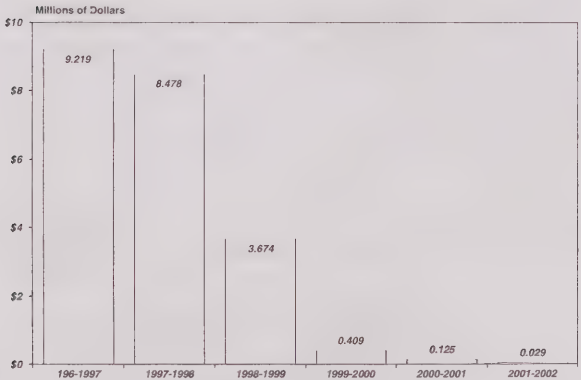
From the total of \$660.1 million identified as having been allocated from the Unity Reserve for GOC fiscal years 1994-95 through to 2003-04, \$130 million was allocated to the CIO. Based on documentation available for our review, during the years when SPS received funds from the CIO, the CIO's total operating budget was funded from the Unity Reserve.

The CIO was created in July 1996 and initially was a department included in the portfolio of the Minister of Canadian Heritage. The CIO was transferred to the portfolio of the Minister of PWGSC effective June 1998. We note the following quote from the CIO's 1999-00 RPP regarding the CIO's mandate:

"The Government of Canada has mandated the CIO to provide Canadians with information on Canada and the Government of Canada's initiatives, programs and services. To do so, the CIO helps develop and carry out projects aimed at strengthening communications between the government and citizens."

Table 33 illustrates the yearly funding provided to PWGSC by CIO with respect to SPS contracts:

Table 33: Summary of Yearly Funding to PWGSC from CIO for SPS Contracts



This funding when added with direct transfers from the Unity Reserve, indicates that in total, at a minimum, \$133.73 million of funding provided for SPS originated from the Unity Reserve. Other departments that received Unity Reserve allocations also provided funding for SPS (see Section 6.1.5).

Typically transfers from the CIO were documented via a letter of agreement between APORS/CCSB and the CIO and identified the events/activities

to be funded. The letters of agreement were typically approved by the Executive Director of APORS/CCSB (Mr. Guité or Mr. Tremblay) and the Director of Finance, Administration and Human Resources for the CIO.

When examining the supporting documentation for amounts transferred from the CIO, in fiscal 1996-97, we noted that the CIO allocated funds totaling \$3 million for seven events which were also identified in the 1996-97 \$17 million allocation to PWGSC from the Unity Reserve. This "duplicate" funding request was not identified in either the TB Submission used to obtain the allocation from the Unity Reserve for PWGSC, or in the funding sought from the CIO.

6.1.5 Other GOC Departments - \$16.5 million

Our review determined that between fiscal 1995-96 and 2002-03, SPS received approximately \$16.5 million from other GOC departments with respect to contracts/directions put in place by APORS and later CCSB. Table 34 illustrates the transfer of funds from other GOC departments to PWGSC for SPS contracts:

Table 34: Funds Received from Other GOC Departments for SPS Contracts (\$ Millions)

PWGSC / Communication Canada	Unity Reserve	Operating Reserve	Other Government Departments
			Heritage Canada\$8.5
			Canada Economic Development for Quebec Regions\$0.4
			Millennium Bureau of Canada\$1.6
			Industry Canada\$1.5
			Human Resources Development Canada\$1.3
			Health Canada\$1.1
			Other / Unknown\$2.1
			\$16.5
			Special Programs & Sponsorship \$355

The funds received from the various departments have been determined by assessing available documentation as maintained by PWGSC. Transfers from other departments were recorded as "recoveries" in the PWGSC accounting system and used as an offset against sponsorship initiatives paid for out of the Special Programs account.

The available documentation supporting the transfers is inconsistent. In certain instances the correspondence between the Department and PWGSC is available and the specific project to which the recovery relates can be determined. In other instances the internal accounting records available from PWGSC identify the source of the recovery without identifying the specific project. In other instances documents indicate that a recovery has occurred however the specific project and department to which the recovery relates are not available.

When documentation did exist regarding the transfer between the department and PWGSC, typically some explanation was provided in the letter of agreement between the department and PWGSC regarding the purpose of the transfer. For example, in 1998-99, the \$1.3 million transfer from Human Resources Development Canada is identified as relating to "research, production and media placement for the first ad of the Community Information Newspaper Program..." Similar justification was provided for the transfers from Health Canada of \$1.0 million and \$1.4 million from Industry Canada in the same year.

#### 6.1.6 Operating Reserve - \$1.5 million

Within the "Fiscal Framework" of the GOC, in addition to the Unity Reserve there existed an "Operating Reserve." In December 1995, TB received a submission from PCO, Heritage Canada and PWGSC seeking as part of an overall submission of \$6 million, "an amount of \$1.5 million to fund advertising and public opinion research related to national unity and strengthening the federation" on behalf of PWGSC. The submission was signed by the Prime Minister. At the time of the TB Submission, the \$25 million in the Unity Reserve for 1995-96 was no longer available as it had previously been allocated. As a result the Operating Reserve was utilized as the source of funds for the TB Submission.

6.2

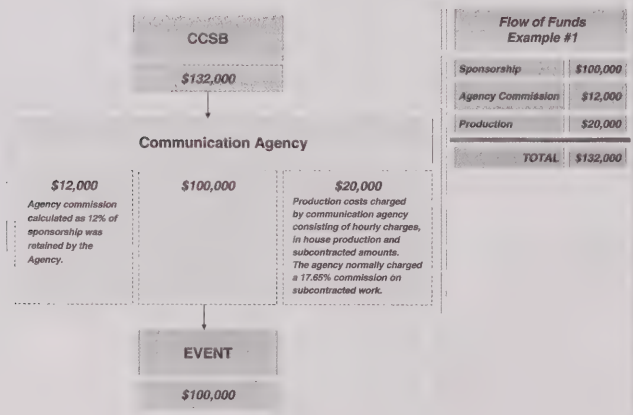
Use of Special Programs and Sponsorship Funds

6.2.1 Flow of Funds to the Agencies

Prior to April 1, 1998, SPS events were contracted between APORS/CCSB and the communication agencies.

Sponsorship contracts were signed between CCSB and the communication agency and normally included amounts for sponsorship, agency commissions generally calculated as 12% of sponsorship value, and a production budget for the agency. Contracts during this period were usually for multiple events. Table 35 illustrates the contract arrangement and flow of funds to the agency.

Table 35: Contract Arrangement and Flow of Funds Prior to April 1, 1998

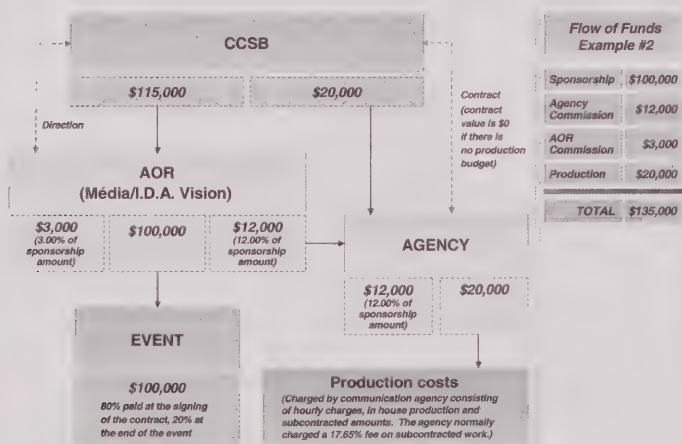


Subsequent to March 31, 1998 an AOR became part of the SPS contracting process. Typically the AOR acted as a central purchasing agent for the purchase of media space. In February 1995, Genesis Media was chosen as the AOR for the GOC and fulfilled that role only for advertising contracts undertaken by the government.



On March 31, 1998 CCSB signed a contract with a newly chosen AOR, Média/I.D.A. Vision, to retain its services as AOR for both advertising and SPS events. Until May 27, 2002, when a temporary moratorium on sponsorship was implemented by the GOC, "Directions" were signed between CCSB and the AOR for the sponsorship value, plus the communication agency's commission (12% of sponsorship value), plus AOR commissions (3% of sponsorship value) for sponsorship in excess of \$25,000, and "Contracts" were signed between CCSB and the communication agency for budgeted production. If no production was budgeted for an event a zero dollar contract was issued to the communication agency because the agency still had responsibility to manage the event, for which it received its 12% commission. Sponsorship events under \$25,000 could be contracted directly with the communication agency without the involvement of the AOR. For such instances, the contract with the communication agency would typically include a sponsorship amount, 12% communication agency commission, and a production budget. The AOR contract arrangement and flow of funds is illustrated in Table 36.

Table 36: AOR SPS Contract Arrangement and Flow of Funds -  
April 1, 1998 to May 27, 2002

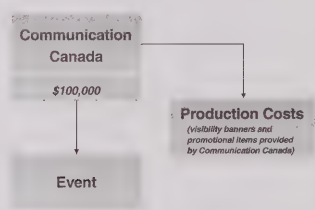


The sponsorship program was suspended between May 27 and July 2, 2002.

Between July 3, 2002, when the sponsorship program was reinstated and December 13, 2003, when the program was permanently abolished, the communication agency and AOR were eliminated from the sponsorship process and sponsorship was managed by the GOC internally through Communication Canada.

Table 37 illustrates the contract arrangement and flow of funds after July 3, 2002, when Communication Canada began managing the SPS contracts.

Table 37: Communication Canada Management of Sponsorship Began in 2002



6.2.2 SPS Contracts

We have identified contracts totaling \$332 million which have been issued for sponsorship, public opinion research, special projects, advertising, and the purchasing of promotional items. As previously stated, we have grouped these contracts together and for purposes of this report refer to these as SPS contracts. We have grouped these contracts because they were funded from resources allocated to APORS, subsequently CCSB and then, effective September 2001, Communication Canada.

The SPS expenditures were accounted for in the "Special Programs" account maintained by PWGSC prior to the transfer of CCSB functions to Communication Canada in September 2001. The Special Programs account was under the control of Mr. Guité during his tenure as the head of APORS/CCSB and later under Mr. Tremblay's control during his tenure.

These expenditures are not the same as typical GOC advertising which were contracted for by APORS/CCSB, but not paid by them. The payments for typical GOC advertising activities were approved by the GOC department for which the advertising was conducted. Section 7 of this report discusses advertising funding and expenditures.

We have compiled a detailed list of the SPS "Contracts" and "Directions" issued by APORS, CCSB and Communication Canada from 1994-95 to 2003-04. We have included this list as Schedule 2 of this report, sorted by year and contract number. Schedule 3 provides the same information sorted by agency. Our starting point was a list of 721 sponsored events (1997-01) as prepared by PWGSC, and a database (1997-04) maintained by Communication Canada.

In order to compile this list, we have relied on available information consisting of internal listings as prepared by APORS, CCSB and Communication Canada and PWGSC's copies of the "Contracts" and "Directions" issued to the agencies. To the extent that these documents did not provide enough information on the nature of services or sponsored events, reference was made to the Requisition for Goods and Services, and Construction (Form 9200) accompanying the contracts, and related correspondence located in the government files and agency files.

For the GOC years 2001-02 to 2003-04 we have prepared the list based solely on the database provided by Communication Canada.

The list presented in Schedule 2 includes "Contracts" and "Directions" starting with EN771 (for 1994-95 to 1998-99), EP043 (for 1999-00 to 2001-02) or 6C523 (for 2002-03). We understand these to represent the SPS "Contracts" and "Directions". For 2003-04 we do not have contract numbers as these were not included in the Communication Canada database.

### 6.2.3 Nature of SPS Expenditures

Our review of the nature of the SPS expenditures indicates funds were disbursed by the GOC for a broad range of activities and events. The description of the intended uses of the funds which were used for the SPS contracts are described in the documents noted below.

A TB Submission request signed by the Minister of Public Works and Government Services, Diane Marleau and the Prime Minister, Jean Chrétien, and approved on November 21, 1996 (Exhibit P-12(A) Tab C) noted as "Background" in Annex A that:

"The result of the Québec referendum is a clear indication that the federal government must continue to promote its programs and services. It is important that the government continue to use resources to oversee the planning, research and development of its position on all government programs and services, and that they be communicated throughout Canada."

The TB Submission requested additional resources of \$17 million for each of 1996-97 and 1997-98. Annex A noted that:

"the additional resources will be allocated in the following three areas:

- public opinion research for focus group testing, primary research and tracking initiatives;
- extend the media buys of planned campaigns to attain a greater reach and impact on the intended audience; and
- the participation in special events in the promotion of programs and services to ensure an efficient and effective federal presence throughout Canada."

Further the TB Submission "Précis" notes that:

"The Department of Public Works and Government Services Canada (PWGSC) is seeking additional funding totaling \$34M, over the next two years, to support the communications priorities of the Government of Canada.

The Advertising and Public Opinion Research Sector (A&PORS) at PWGSC is responsible for, amongst other activities, fulfilling a Government of Canada initiative to promote all its programs, policies and services by means of sponsorship through selective events across Canada. The events are determined on the basis of audience, visibility, timing and potential impact on the government's programs used at such events."

The November 2003 Report of the Auditor General to the House of Commons states that the "Sponsorship Program" was created in 1997 and that:

"Sponsorships were arrangements in which the Government of Canada provided organizations with financial resources to support cultural and community events. In exchange, the organizations agreed to provide visibility by, for example, using the Canada wordmark and other symbols such as the Canadian flag at their events, and on promotional material." (paragraph 3.6)

"Sponsorships were intended to encourage a positive perception of the government through its association with popular events and organizations in fields such as sports and culture. They would also increase the federal presence and visibility in communities across Canada." (paragraph 3.7)

Our comments on each of the categories of events as identified in Table 8 in Section 3.2.3 are provided in Appendix F.

6.3

Analysis of Selected Special Programs and Sponsorship Contracts

6.3.1 SPS Contracts Sampled

As indicated in Section 6.2.2, Kroll prepared a listing of SPS contracts. This listing includes the amounts noted in the contracts for media purchases, sponsorship, agency commissions and production costs.

Of the \$332 million referred to in Section 3.2.I, \$305 million related to contracts managed by communication agencies. Table 38 provides a breakdown of these contracts by year and highlights the years from which Kroll drew its sample for detailed review.

Table 38: Summary by Year of Contract Details for Agency Managed Contracts (\$ millions)

Year	Media Purchases	Sponsorship	Agency Commission <sup>1</sup>	Production	Total
1994-95	0.74	-	0.13	1.20	2.07
1995-96	6.79	1.76	1.38	12.03	21.96
1996-97	1.55	2.38	0.29	26.57	30.79
1997-98	4.75	22.58	2.91	21.31	51.55
1998-99	6.27	23.61	4.63	26.90	61.41
1999-00	-	25.84	3.78	17.86	47.48
2000-01	-	25.41	3.76	10.81	39.98
2001-02	-	30.25	4.54	5.77	40.56
2002-03	-	8.00	1.19	0.11	9.30
Total	<u>\$20.10</u>	<u>\$139.83</u>	<u>\$22.61</u>	<u>\$122.56</u>	<u>\$305.10</u>

<sup>1</sup> Agency commission includes commissions contracted in relation to media purchases as well as commissions related to sponsorship.

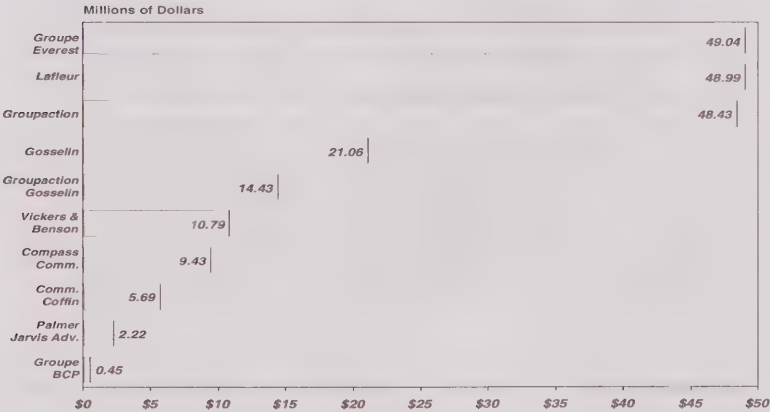
Table 39 identifies the value of SPS contracts by contract category that were examined by Kroll.

Table 39: Contract Details for Selected Contracts Reviewed by Kroll  
(\$ millions)

Year	Media Purchases	Sponsorship	Agency Commission	Production	Total
1996-97	1.05	0.96	0.10	22.74	24.85
1997-98	4.36	22.41	2.82	20.34	49.93
1998-99	0.55	22.41	3.43	26.28	52.67
1999-00	-	24.70	3.63	17.51	45.84
2000-01	-	24.30	3.63	9.32	37.25
Total	<u>\$5.96</u>	<u>\$94.78</u>	<u>\$13.61</u>	<u>\$96.19</u>	<u>\$210.54</u>

Table 40 identifies the communication agencies involved with the contracts reviewed by Kroll.

Table 40: Agencies Receiving Contracts Reviewed by Kroll



### 6.3.2 Sponsorship Amounts

For 1996-97 and 1997-98, prior to the AOR becoming involved in the sponsorship contracting process, for the contracts selected by Kroll for review, Kroll reviewed all of the invoices associated with the contract including those related to the sponsorship portion.

In 1996-97 almost all of the contracts issued for SPS treated the full amount of the contract as a contract for production. Our review of invoices from the agencies to PWGSC indicated that in many instances amounts invoiced were supported by invoices received by the agencies from the sponsoree. For purposes of summarizing our review of contracts we have classified such items as sponsorship rather than production. In total for 1996-97 we classified \$4.42 million more as sponsorship than was indicated in the contracts including:

- \$880,000 related to funds paid to support various professional auto races;
- \$536,000 invoiced in relation to the Montréal Expos; and
- \$575,000 invoiced in relation to the Montréal Canadiens.

For the years 1998-99 to 2000-01, where the sponsorship amount was primarily paid through the AOR, Kroll has examined in detail the AOR's receipt and payment of sponsorship funds. Sponsorships greater than \$25,000 managed by the communication agency, and sponsorships less than \$25,000 that included a production component, were also reviewed.

For the purposes of preparing our analysis we have categorized as sponsorship only those amounts invoiced to the communication agency by the sponsoree identified in the contract. Further, production and other costs invoiced to the communication agency by the sponsoree indicated in the contract were treated as subcontracted amounts. All supporting invoices indicating payment to a third party were considered to have been subcontracted by the communications agency.



### 6.3.3 Agency Commissions and Production Costs

Kroll undertook a detailed review of the invoices and underlying supporting documents for billings to PWGSC in respect of our sample of selected SPS contracts. Our sample included substantially all of the contracts that included a production amount for the 1996-97 through 2000-01 fiscal years.

Our detailed review of the available invoices and underlying supporting documents for our sample of contracts provided further insight into amounts earned as commissions and amounts spent by agencies on related party and non-related party subcontracts. Table 41 summarizes our findings.

Table 41: Summary of Selected SPS Contracts Reviewed by Kroll  
(\$ millions)

	96-97	97-98	98-99	99-00	00-01	Total	Percentage
Sponsorships	5.38	18.39	22.79	24.74	24.30	95.60	45.4%
<b>Amounts Invoiced for Work Done by Agencies and Related Parties</b>							
Agency Sponsorship Commissions	0.61	2.16	2.73	2.95	2.92	11.37	
Agency Production	1.60	3.72	.91	.15	-	6.38	
Agency Time Charges	3.58	5.72	7.00	5.35	1.58	23.23	
Agency Commissions <sup>1</sup>	1.17	2.40	1.85	1.72	1.05	8.19	
Subcontracted to Related Party	1.52	1.95	3.01	1.85	1.09	9.42	
<b>Total Invoiced for Work Done by Agencies and Related Parties</b>	<b>8.48</b>	<b>15.95</b>	<b>15.50</b>	<b>12.02</b>	<b>6.64</b>	<b>58.59</b>	<b>27.8%</b>
<b>Amounts Invoiced for Work Done by Third Party</b>							
Subcontracted to Unrelated or Unknown Party	10.96	8.51	9.58	7.41	4.05	40.51	
AOR Commission	-	-	0.65	0.69	0.71	2.05	
Media Purchases	0.03	6.77	3.93	0.84	1.35	12.92	
<b>Total Invoice for Work Done by Third Party</b>	<b>10.99</b>	<b>15.28</b>	<b>14.16</b>	<b>8.94</b>	<b>6.11</b>	<b>55.48</b>	<b>26.4%</b>
Unspent Amounts or Invoices Not Located	-	0.31	0.22	0.14	0.20	0.87	0.4%
<b>Total Contract Value</b>	<b>\$24.85</b>	<b>\$49.93</b>	<b>\$52.67</b>	<b>\$45.84</b>	<b>\$37.25</b>	<b>\$210.54</b>	<b>100.0%</b>

<sup>1</sup> Includes commissions on subcontracted amounts and media purchases.

Based on our sample, amounts invoiced by the communication agencies for work done by the agency or a party related to the agency totaled \$58.59 million or 27.8% of the value of the contracts reviewed.

We have grouped the amounts invoiced for work by the communications agencies into several categories. Our general findings in relation to each of these categories is set out below. Details on each contract reviewed are included in our production analysis working papers that support this report.

#### **Communication Agency Sponsorship Commissions - \$11.37 million**

Sponsorship commissions for the selected contracts reviewed by Kroll summarized in Table 41 averaged 11.6% of the sponsorship amount for 1996-97 and 1997-98 and 12% in subsequent years.

#### **Agency Production - \$6.38 million**

Included in our review of agency production were invoices for 471 maquettes invoiced by Lafleur at \$2,750 each for a total of \$1,295,250 and a total of \$1,740,000 invoiced by Groupaction related to the production of television vignettes as part of the Nagano Olympics initiative. The Nagano contract was invoiced on a fixed price basis.

#### **Agency Time Charges - \$23.23 million**

Our review of agency time charges noted that some invoices provided details of the name of the individual, their position, hourly rate and hours invoiced and/or provided time sheets in support of the hourly charges. In other instances, however, the position and number of hours charged were indicated but not the name of an individual. In still other instances, only a lump sum was indicated for "professional services" or "honoraires."

We also noted some cases where details of hourly rates were set out on the invoice or could be calculated from the available information but the hourly rates charged were not in accordance with the hourly rate stipulated in the contract.

**Agency Commissions - \$8.19 million**

Commissions of \$8.19 million were charged on subcontracted amounts and media placement of which \$1.2 million was paid in relation to work subcontracted to related parties.

**Amounts Subcontracted to Related Parties - \$9.42 million**

For the contracts in our sample we determined that \$9.42 million was subcontracted to related parties and \$40.51 million to parties which did not appear to be related to the communication agency or who were otherwise unknown.

**Media Purchases - \$12.92 million**

Included in the \$12.92 million of media purchases are charges primarily for the purchase of television time and billboard space. Purchases of media aimed at a local or regional market have been included as subcontracted amounts.

We were unable to locate invoices for \$870,000. This represents 0.4% of the total value of the contracts selected for review. We do not know whether this difference relates to invoices that are no longer available in the records of PWGSC or whether amounts contracted were actually underspent.

Our detailed finding for each agency are set out in Section 8 through 16 of this report.

## 6.4

### November 2003 Report by the Auditor General

The Auditor General in her report dated November 2003 noted,

"From 1997 until 31 March 2003, the Government of Canada spent about \$250 million to sponsor 1,987 events... Over \$100 million of that (40 percent of total expenditures) was paid to communications agencies as production fees and commissions."

We understand from the Auditor General that the \$100 million amount ascribed to production fees and commissions paid to agencies was calculated, with reference to the sponsorship database maintained by PWGSC, as follows:

- 15% of total contracted sponsorship amount, plus
- 100% of total contracted production amount.

The PWGSC database was adjusted by the OAG to allocate amounts contracted in 1996-97 between sponsorship and production.

Kroll has prepared a summary by year based on the actual contract details for the same group of contracts commented upon by the Auditor General. As noted in Table 42, a total of \$19.92 million was contracted as agency commissions, a further \$81.05 million was contracted as production costs and \$6.94 million related to media placement for a total amount of agency commissions, production costs and media placement of \$107.91 million. Total contracted amounts were \$253.58 million compared with the estimate of \$250 million referred to in the Auditor General's report.

Table 42: Summary of Contracted Amounts for Contracts Referred to in the Report of the Auditor General  
(\$millions)

	Sponsorship	Agency Commission <sup>1</sup>	Media Placement	Production	Total Agency Commissions, Media Placement and Production	Total
1996-97	-	-	-	0.33	0.33	0.33
1997-98	22.53	2.90	4.75	20.03	27.68	50.21
1998-99	22.58	3.75	2.19	26.18	32.12	54.70
1999-00	25.84	3.78	-	17.67	21.45	47.29
2000-01	25.40	3.77	-	10.81	14.58	39.98
2001-02	30.22	4.53	-	5.78	10.31	40.53
2002-03	19.10	1.19	-	0.25	1.44	20.54
Total	<u>\$145.67</u>	<u>\$19.92</u>	<u>\$6.94</u>	<u>\$81.05</u>	<u>\$107.91</u>	<u>\$253.58</u>

## 6.5

### Agency Selection - Special Programs and Sponsorship

#### 6.5.1 February 1995

In February 1995, five agencies, Groupe Everest, BCP, Compass, Palmer Jarvis and Vickers & Benson, were chosen on the second day of the Heritage Canada selection process. In an undated memo Mr. Guité indicates that these five agencies "will be included on the PWGSC/APORS qualified supplier list for possible communication/advertising contracts on behalf of APORS."

Of the \$305.1 million in agency managed contracts, \$1.7 million were awarded prior to February 1995. Of this amount \$865,000 in contracts were awarded to Genesis Media, the AOR. Many of the contracts making up the balance of \$1.7 million were awarded to agencies which supply public opinion research. A listing of these contracts is attached as Schedule 13.

The next selection process for PWGSC was finalized June 30, 1995 at which time Consortium Lafleur was chosen.

<sup>1</sup> Agency commission includes commissions contracted in relation to media purchases as well as commissions related to sponsorship.

6.5.2 February - June 1995

Between February and June 1995, SPS contracts were awarded totalling \$4.6 million. Of this amount contracts totalling \$714,430 were awarded to one of the five agencies chosen in February while \$2.49 million, or 54% of the value of the contracts awarded were given to Lafleur. Table 43 sets out the dollar value of the contracts awarded between February and June 1995.

Table 43: Summary by Agency of SPS Contracts Awarded between February and June 1995

	Total Contracts (\$ millions)	Percentage (%)
Agencies Chosen in February 1995		
Palmer Jarvis	0.31	6.7%
Compass	0.18	3.9%
Groupe BCP	0.15	3.3%
Groupe Everest	<u>0.07</u>	<u>1.5%</u>
	<u>0.71</u>	<u>15.4%</u>
Other Agencies Receiving Contracts		
Lafleur	2.49	54.2%
Gingko Group	0.46	10.0%
All Others	<u>0.94</u>	<u>20.4%</u>
	<u>3.89</u>	<u>84.6%</u>
Total Contracts	<u>\$4.60</u>	<u>100.0%</u>

The contracts awarded during this period are set out in detail in Schedule 14.

6.5.3 July 1995 - April 1997

Consortium Lafleur was selected in the June 1995 competition and included Lafleur Communication together with Compass, Natcom Publicité, Freeman Roger Battaglia and SKS Advertising.

Between July 1995 and April 1997, when PWGSC concluded another selection process, SPS contracts were awarded to agencies as summarized in Table 44 and are set out in detail in Schedule 15.

Table 44: Summary by Agency of SPS Contracts Awarded  
between July 1995 and April 1997

	Total Contracts (\$ millions)	Percentage (%)
Agencies Selected in 1995		
Lafleur	34.17	48.30%
Groupe Everest	18.74	26.48%
Vickers & Benson	6.00	8.48%
Groupe BCP	5.72	8.08%
Palmer Jarvis	1.90	2.69%
Compass	0.25	0.35%
Genesis Media	<u>0.02</u>	<u>0.03%</u>
	<u>66.80</u>	<u>94.41%</u>
Other Agencies Receiving Contracts		
Groupaction	1.30	1.84%
All Others	<u>2.65</u>	<u>3.75%</u>
	<u>3.95</u>	<u>5.59%</u>
Total Contracts	<u>\$70.75</u>	<u>100.00%</u>

#### 6.5.4 April 1997 - May 2001

In April 1997 PWGSC concluded an agency selection process in which ten agencies were chosen to provide corporate sponsorship services and event marketing services on behalf of PWGSC. The contracts awarded between April 1997 and March 2001, are summarized below.

Table 45: Summary by Agency of SPS Contracts Awarded between May 1997 and March 2001

	Total Contract (\$ millions)	Percentage (%)
Agencies Chosen in February 1995		
Groupe Everest	22.10	23.61%
Vickers & Benson	9.36	10.00%
Compass	6.26	6.69%
Groupe BCP	0.45	0.48%
Palmer Jarvis	<u>0.37</u>	<u>0.40%</u>
	<u>38.54</u>	<u>41.18%</u>
Agency Chosen June 1995		
Lafleur Communication	<u>8.69</u>	<u>9.28%</u>
Agencies Chosen in April 1997		
Groupaction	18.92	20.22%
Gosselin	13.23	14.13%
Groupaction/Gosselin	9.35	9.99%
Communication Coffin	3.20	3.42%
Publicité Martin	<u>0.48</u>	<u>0.51%</u>
	<u>45.18</u>	<u>48.27%</u>

A detailed listing of contracts awarded during this period is set out in Schedule I6.

#### 6.5.5 May 2001

In May 2001 PWGSC held an agency selection process to issue standing offers "for PWGSC-CCSB Sponsorship, marketing, communication, advertising, and creative production services".

Nine agencies were chosen to receive standing offers including:

- Armada
- Bristol Group
- Coffin
- Compass
- Everest
- Gosselin
- Groupaction



## SECTION SEVEN

**DETAILED FINDINGS—  
ADVERTISING****7.1****Sources of Funds for Advertising Contracts**

Funds for advertising are allocated to departments through the budgeting process described in Section 4.1.

**7.2****Use of Advertising Funds****7.2.1 Flow of Funds to the Advertising Agencies**

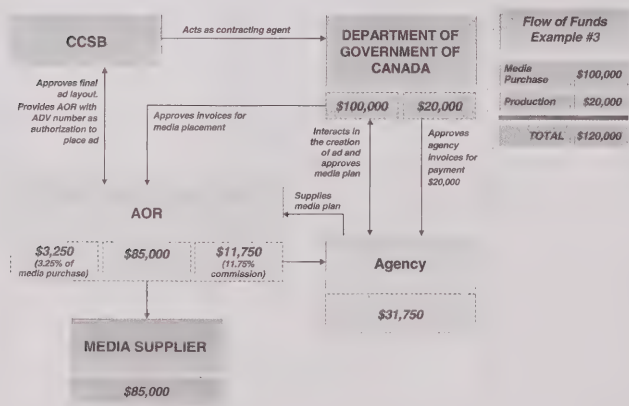
Unlike SPS contracts, where the procurement of the services and the approval of invoices was managed by the same group of individuals within CCSB, in advertising there is also a role played by the advertising staff within each government department.

Advertising for departments is funded from departmental budgets. Those individuals working on a departmental advertising project report to others within their own department. This division of duties provides an extra level of checks and balances within advertising activities that was absent in the management of SPS contracts. The exceptions were those departments, including CIO and CMHC, which in some instances used CCSB to manage their advertising contracts as well providing contracting services.

In addition to issuing a Direction to the AOR for media purchases CCSB contracted with the agency selected for the department through the agency selection process for production work. The department then worked directly with the agency in creation of both the advertisement and the media plan.

The diagram below sets out the flow of funds and the areas of responsibility for CCSB and for the government department as it relates to advertising.

Table 46: Areas of Responsibility for CCSB and Government Departments Related to Advertising



Directions for media purchases were primarily with the AOR, either Genesis Media (from April 1, 1994 to March 31, 1998) or Média/I.D.A Vision (from April 1, 1998 to March 31, 2003). The communication agency managing a particular advertising contract was responsible for preparing a

media plan which outlines the location, duration and type of media to be purchased. Payment for this work was in the form of a commission of 11.75% calculated on the gross amount of the media purchases. Payment was made to the communication agency by the AOR. The communication agency commission of 11.75% and the AOR commission of 3.25%, a total of 15% was included in the gross cost of media purchases billed to the GOC by the AOR.

### 7.2.2 Advertising Contracts

Kroll has prepared the listing of advertising contracts primarily from listings of contract information provided electronically by the OAG and listings of contract information located in the records produced by PWGSC to the COI. Additional contract information has been derived from listings produced by the departments and agencies, listings produced by Mr. David Myer, former Director General of Procurement at CCSB, the working papers of Ernst and Young related to their report entitled "Advertising and Public Opinion Research Sector, Compliance Audit of Contracting Processes, Final Report" dated November 1996, and contracts located during the course of our review. Where details in the contract differed from those on the listings, we have amended the listings. Our detailed listing summarized by year (Schedule 8), by department (Schedule 9) and by agency (Schedule 10) are attached.

### 7.2.3 Nature of Advertising Expenditures

Of the approximately \$1.1 billion contracted for advertising between April 1, 1994 and March 31, 2003, 53% was contracted for media purchases. Media purchases included the purchasing of print advertising space in newspapers, billboard space, magazine advertising, and television and radio airtime.

The balance of the advertising contracting was for agencies' services including production costs and advertising sponsorships relating to the advertising program. Sponsorships were undertaken by GOC departments and funded from department budgets, for example, Health Canada provided funds for the Senior Community Garden Program in 1998, the International Year of Older Persons. Production costs could include such items as time spent meeting

with departmental representatives to discuss concepts, preparation and presentation of mockups and/or scripts, revisions to the message or approach, presentation of actors or models to be used and the overseeing of ad production and focus group testing.

We understand from discussions with department personnel that contracts for advertising services were often issued on an "as and when requested" basis, thus the entire amount contracted was not necessarily expended by the department.

7.3  
Analysis of Selected Advertising Contracts

7.3.1 Advertising Contracts Sampled

Kroll undertook a detailed review of invoices and underlying supporting documents for a sample of selected advertising contracts taken from our detailed listing. Our sample was chosen judgmentally and included contracts awarded to those agencies that received a large dollar amount of the advertising contracted by the GOC, those agencies that received significant sponsorship contracts and those departments that had significant, by dollar value, advertising contracts. The sample included the years 1996-97 through 2001-02.

Table 47 lists the contract values by year for the contracts in the Kroll sample:

Table 47: Summary of Selected Advertising Contracts Reviewed by Kroll  
(\$ millions)

<u>Fiscal Year</u>	<u>Total</u>
1996-97	10.11
1997-98	16.17
1998-99	5.30
1999-00	4.30
2000-01	3.67
2001-02	<u>6.77</u>
<b>Total</b>	<b><u>\$46.32</u></b>

A detailed listing of the contracts reviewed is attached as Schedule II. Table 48 provides the listing of contracts reviewed summarized by agency.

Table 48: Summary of Selected Advertising Contracts  
Reviewed by Kroll by Agency  
(\$ millions)

<u>Agency</u>	<u>Total</u>
Vickers and Benson	21.83
BCP	5.50
Groupaction	4.69
Armada	3.38
Compass	2.10
Gingko	2.04
Groupaction Gosselin	1.47
Groupe Everest	1.46
Gosselin	1.20
Ensemble Consortium	1.00
Lafleur	0.83
Coffin	<u>0.82</u>
<b>Total</b>	<b><u>\$46.32</u></b>

Table 49 provides a breakdown of the same information in Table 47 and Table 48 by GOC department.

Table 49: Summary of Selected Advertising Contracts  
Reviewed by Kroll by Department  
(\$ millions)

GOC Department	Total
Canadian Tourism Commission	22.51
Canada Information Office	6.79
PWGSC	4.68
Industry Canada	3.24
Finance	3.00
Health Canada	1.79
Federal Office for Regional Development (Québec)	1.05
Defence	1.00
Heritage Canada	0.76
Canadian Firearms Centre	0.74
Revenue Canada	0.44
Human Resources Development	0.32
<b>Total</b>	<b><u>\$46.32</u></b>

7.3.2 Analysis of Advertising Agency Services Including Production Costs

Advertising Service Costs

Table 50 summarizes our findings for the sample of advertising service contracts reviewed by Kroll.

Table 50: Summary of Selected Advertising Contracts Reviewed by Kroll  
(\$ millions)

	Total	Percentage
Sponsorships	0.46	1.0%
<b>Amounts Invoiced for Work Done by Agencies and Related Parties</b>		
Agency Sponsorship Commissions	0.05	
Agency Production	0.03	
Agency Time Charges	2.88	
Agency Commissions on Subcontracted Amounts	1.92	
Amounts Subcontracted to Related Party	3.46	
<b>Total Invoiced for Work Done by Agencies and Related Parties</b>	8.34	18.0%
<b>Subcontracted to Unrelated or Unknown Parties</b>	26.00	56.1%
Unspent Amounts or Invoices Not Located	11.52	24.9%
<b>Total Contract Value</b>	<b><u>\$46.32</u></b>	<b><u>100.0%</u></b>

With reference to Table 50 we note the following:

### **Sponsorship**

Agencies' invoices to GOC departments included invoices in relation to sponsorship or visibility initiatives undertaken by GOC departments. Our sample included:

- \$150,000 invoiced by Lafleur to Health Canada in relation to the sponsorship by Health Canada of the Senior Community Garden Program for 1998. Lafleur charged the department a commission of 15% (\$22,500).
- \$200,000 invoiced by Groupaction in relation to the sponsorship of the "J'arrête, j'y gagne" initiative in 2001. Groupaction contracted with PWGSC for this sponsorship and received a 12% commission.
- \$27,500 invoiced by Armada to the Federal Office for Regional Development (Québec) for "publicité et visibilité pour le Gouvernement du Canada lors de L'International Bromont du 20 au 24 juin 2001".

### **Agency Sponsorship Commissions - \$0.05 million**

Where a sponsorship commission was indicated on the invoice to the GOC the commission rate was 12% to 15%.

### **Agency Time Charges - \$2.88 million**

Agencies' invoices to GOC departments included invoices for time charges totaling \$2.88 million. In some instances the rate charged to PWGSC agreed with the stipulated rates in the contracts, in others there was insufficient detail available for us to make a determination. In still other instances, the invoices from the communication agency provided only a lump sum amount for agency fees based on approved estimates rather than actual hours worked.

**Commissions on Subcontracted Amounts - \$1.92 million**

For the selection of contracts reviewed by Kroll, payments to the communication agencies for commissions on subcontracted amounts totaled \$1.92 million.

**Amounts Subcontracted to a Related Party - \$3.46 million**

For the contracts in our sample, we determined a total of \$3.46 million was spent for services subcontracted to related parties compared to \$26.0 million sub-contracted to unrelated parties.

We noted 13 contracts involving nine agencies where commissions were charged on amounts subcontracted to related parties. In total for our sample \$440,000 was paid in commissions for work subcontracted to related parties.

**Amounts Subcontracted to Unrelated or Unknown Parties - \$26 million**

For the sample reviewed, payments to unrelated or unknown parties totaled \$26 million or 56% of the contracted amount. During the course of our review we noted:

- In 2001, PWGSC entered into a contract with Compass totaling \$1.6 million for which the scope of work was described as "Management production and design for the development of "Canada House Pavillions" at the "Jeux de la Francophonie" and the "World Athletics competition". Of the \$1.6 million, \$1.35 million was subcontracted to unrelated parties.

Compass invoiced PWGSC for costs associated with the Canada Pavillion at the 2001 Grey Cup as well as the two events noted in the contract.

Jeux de la Francophonie, the World Athletics Championships and the Grey Cup were events which also received support through SPS contracts.

- In January 1998 Industry Canada entered into a \$1.2 million



dollar contract with Gosselin for the sponsorship of "Campaign SOS 2000". Gosselin invoiced Industry \$1,110,000 for sponsorship and \$90,000 as agency commission. Gosselin in turn subcontracted substantially all of the \$1,110,000 sponsorship to Cossette. Cossette's billing to Gosselin was primarily for media placements.

### **Unspent Amount or Invoices Not Located**

We were unable to locate invoices related to \$11.5 million or 24% of the contract value of our sample. In some instances we were able to determine from other documentation or with the assistance of the departments that the full amount of the contract had not been spent.



## SECTION EIGHT

DETAILED FINDINGS—  
LAFLEUR

## 8.1

## Business Background

## 8.1.1 Lafleur Communication

On June 15, 1984, Mr. J. Lafleur became the sole shareholder, director and president of Jean Lafleur Communication Marketing Inc. ("Lafleur Communication"). On July 22, 1987, the shares owned by Mr. J. Lafleur were transferred to 157146 Canada Inc., Mr. J. Lafleur's holding company.

From 1984 to 1992, the level of business had ranged from a low of \$324,000 in 1985 to a peak of \$1.7 million in 1991. The average from 1987 to 1992 was approximately \$1.3 million per year.

During its fiscal years ended December 31, 1993 and 1994, the company realized a sales volume of approximately \$1.1 million per year. Its clients were from both the private sector and from the public sector.

From June 1984 until January 2001, Mr. J. Lafleur was the president of Lafleur Communication.

On January 17, 2001, 157146 Canada Inc. sold all the shares it held in Lafleur Communication to Communications Groupdirect Inc., a company owned indirectly by Mr. Jean Brault. The transaction was effective as at January 1, 2001. This transaction is detailed in Section 8.7 of this report.

#### 8.1.2 Other Affiliated Companies

157146 Canada Inc. was (or became) the only shareholder of:

- a) Les Éditions Satellite Inc. ("Satellite"), a company incorporated on May 2, 1997 to publish VIA Magazine;
- b) 3440222 Canada Inc., a company incorporated on December 1, 1997 to operate a tennis club; and
- c) GESCOM Inc. ("GESCOM"), a company incorporated on February 26, 1998, to offer communication services.

Mr. J. Lafleur was the president of these companies.

Lafleur Communication was also related to Publicité Dezert Inc., a company incorporated on April 29, 1993 and controlled by Mr. Eric Lafleur, Mr. J. Lafleur's son.

## 8.2

### GOC Selection Process

We are not aware of any selection competition where Lafleur was asked to make a final presentation as an individual agency. The Table below sets out the known agency selection competitions where Lafleur was a member of

the winning consortium. A full listing of all known agency selection competitions has been compiled and produced as Exhibits P-4I6(A) and P-4I6(B).

Table 51: Lafleur Agency Selection Competitions

Final Report Date	Department	Winning Agency or Consortium
December 14, 1994	Health Canada	Consortium Lafleur (Compass, Warwick and Associates and Palmer Jarvis)
June 30, 1995	PWGSC	Consortium Lafleur (Compass, Natcom, Freeman Rogers Battaglia, SKS)
August 22, 1995	Finance	Consortium, Compass, Freeman Rogers Battaglia, Lafleur
December 5, 1995	Justice	Consortium Lafleur (agencies participating in the consortium are not known)

On June 30, 1995 the selection committee for PWGSC issued its report recommending that the Lafleur Consortium be selected as the communication agency for PWGSC. However, we note that the first SPS contract awarded to Lafleur Communication is dated April 10, 1995 and a total of \$2.49 million of SPS contracts were awarded to Lafleur Communication prior to June 30. A listing of these contracts is included at Schedule 2.

Our review of the invoices related to these contracts indicate that Lafleur Communication started working on various sponsorship projects, including Classique de Blainville, Grand Prix de Montréal (Formula 1), Expos de Montréal, Tour de l'Île and Molson Indy Toronto, before June 30, 1995.

Even though Lafleur Consortium was selected as the communication agency for PWGSC, the contracts were issued to Lafleur Communication. No sponsorship contracts were issued to the Consortium and we found no evidence that any part of the work billed by Lafleur Communication had been carried out by any of the other members of the consortium.

Lafleur Communication was not one of the ten agencies selected on April 28, 1997 to act as PWGSC/APORS communication agencies but continued to receive contracts subsequent to the April 1997 competition.

8.3

Contracts with GOC

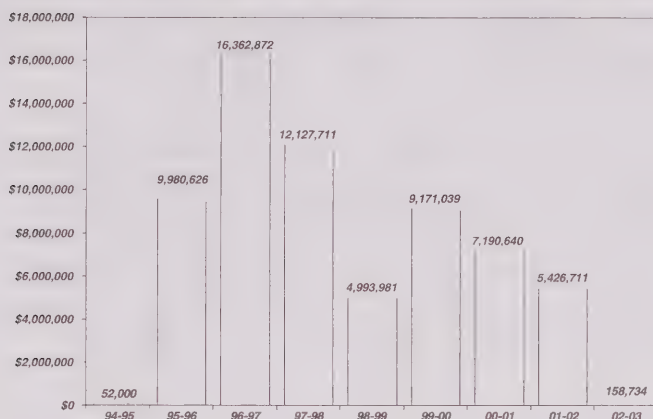
8.3.1 SPS Contracts

Over the 1994-95 to 2002-03 GOC fiscal years, Lafleur Communication was the communication agency for SPS contracts with a total value of \$65.5 million, as detailed in the following Table:

Table 52: Lafleur Communication SPS Contracts

Year	Contracts with Lafleur Communication	Directions with Genesis Media or Média/I.D.A. Vision	Total
1994-95	52,000	-	52,000
1995-96	7,693,626	2,287,000	9,980,626
1996-97	16,362,872	-	16,362,872
1997-98	12,127,711	-	12,127,711
1998-99	2,743,731	2,250,250	4,993,981
1999-00	2,308,189	6,862,850	9,171,039
2000-01	1,829,340	5,361,300	7,190,640
2001-02	94,701	5,332,010	5,426,711
2002-03	<u>3,485</u>	<u>155,249</u>	<u>158,734</u>
Total	<u>\$43,215,655</u>	<u>\$22,248,659</u>	<u>\$65,464,314</u>

Table 52a - Lafleur Communication - Total Value of SPS Contracts



Our review of the underlying contracts indicates that the \$65.5 million was committed to be spent for the following purposes:

Table 53: Kroll Analysis of Selected Lafleur SPS Contracts

	Lafleur Communication	Genesis Media or Media/I.D.A. Vision	Total
Sponsorship:			
1995-96 to 1997-98 <sup>1</sup>	7,776,600	31,450	7,808,050
1998-99 to 2002-03	<u>1,034,250</u>	<u>17,357,964</u>	<u>18,392,214</u>
Total sponsorship	8,810,850	17,389,414	26,200,264
Media Placement	-	1,912,500	1,912,500
AOR Commissions	-	595,066	595,066
Communication Agency Commissions	3,556,146	-	3,556,146
Production Costs and Professional Fees <sup>2</sup>	<u>33,200,338</u>	<u>-</u>	<u>33,200,338</u>
<b>Total</b>	<b><u>\$45,567,334</u></b>	<b><u>\$19,896,980</u></b>	<b><u>\$65,464,314</u></b>

<sup>1</sup> This amount is based on the information found in the contracts awarded to Lafleur Communication and is likely understated. Based on Kroll's analysis of Lafleur Communication's invoices to APORS/CCSB, the amount actually received by this agency and repaid to organizers of sponsored events during fiscal year 1996/97 is \$4,749,300, as opposed to \$276,100 per the contracts.

<sup>2</sup> This amount includes payments to external suppliers and to Publicité Dezert.

Our review also indicates that the total value of the SPS contracts awarded directly to Lafleur Communication for the 1996-97 to 1999-2000 GOC fiscal years was \$42,655,603, of which 99.99% was billed to APORS/CCSB. Detailed findings are in exhibit P-216, page 79.

During the 1995-96 and 1996-97 fiscal years, the total value of the contracts awarded to Lafleur Communication represented 45.4% and 53.1% respectively of the total value of all SPS contracts awarded during these years.

Furthermore, with respect to the list of specific projects included with the TB Submission for \$17,000,000 in November 1996, Lafleur Communication was awarded contracts having a total value \$13.7 million.

8.4  
Management of Contracts

8.4.1 General Observations

Billing Practices - Communication Agency 12% Commission

Lafleur Communication billed PWGSC substantial hours against SPS contract production budgets in addition to the 12% agency commission on sponsorship amount.

Table 54 compares amounts billed by Lafleur Communication on an hourly basis on certain contracts to the 12% agency commission for that contract.

Table 54: Comparison of Communication Agency Commission to Agency Time Charges for Selected Contracts

Event	Communication Agency Commission	Agency Time Charges	
		Hours	\$
Encyclopédie du Canada	144,000	1,041.7	57,831
Expos de Montréal	261,216	1,768.3	294,915
Grand Prix du Canada (Formule 1)	232,174	1,008.5	178,348
GRC - 125 <sup>ème</sup> anniversaire	62,250	2,425.8	396,354
Internationaux de Tennis Junior de Repentigny	11,490	427.8	76,111
Musée Grande Cascapédia	22,500	71.0	12,775
Série du siècle (Société Canadienne des Postes)	40,500	111.5	23,830
Société du Vieux-Port (Centre ISCI)	<u>180,000</u>	<u>237.5</u>	<u>30,579</u>
Total	<u>\$954,130</u>	<u>7,092.0</u>	<u>\$1,070,742</u>



We note that the contracts do not clearly differentiate between which services are to be covered by the 12% commission and which services can be billed separately on an hourly basis. A detailed list of the contracts relating to the above events is contained in Schedule 17.

#### 8.4.2 Subcontracted Production: Professional Fees

During the period from 1993 to 2000, Lafleur Communication had between 12 to 35 employees on its payroll, including Mr. J. Lafleur and other members of his family: Ms Dyane Lafleur,

Ms. Julie Lafleur and Mr. Eric Lafleur, Mr. Jean-Philippe Lafleur and Mr. Simon Lafleur.

Professional services were also provided by subcontractors, including Xylo Concept Graphique, a company owned by Pierre Davidson, Yuri Kruk Communications Design, a company owned by Mr. Yuri Kruk, D.L.C. Communications Inc., a company owned by Mr. Daniel Lévesque, and Gosselin Communications, a company owned by Mr. Gilles-André Gosselin.

The amounts billed to APORS/CCSB by Lafleur for sub-contractors were based on the hours charged by the subcontractors at the hourly rates stipulated in Lafleur Communication's contracts.

#### 8.4.3 Gosselin Communications - Bluenose Project

In the case of the Bluenose project, Lafleur Communication subcontracted work to Gosselin Communications in 1996 and 1997. Gosselin Communications had no employees other than Mr. G.A. Gosselin, his wife and his son. Gosselin Communications professional services were provided by subcontractors mainly recruited from CPPC - Centre de placement de professionnels en communication Inc. ("CPPC"), a company owned by Mr. G.A. Gosselin's wife, Mrs. Andrée Côté Gosselin.

CPPC had no employees other than Mrs. A. Côté Gosselin and another person. The company was also using the services of subcontractors.

As an example, Ms Geneviève Proulx was a subcontractor of CPPC assigned to the Bluenose project. As shown in the following Table, she billed CPPC for the time worked on the project at an hourly rate that varied from \$12 to \$17. This rate was marked up by CPPC and by Gosselin Communications to Lafleur Communication which then billed the hours to APORS/CCSB at an hourly rate of \$150, which is the rate stated in the contract for employees qualifying as "Account Supervisor". However, on Lafleur Communication's last invoice, Ms G. Proulx's time is billed at \$125 per hour, which is the rate stated in the contract for employees qualifying as "Clerical Support".

Table 55: Summary of Hourly Charges in Relation to the Bluenose Project

Billed By	Hourly Rate	Invoiced Amount	Mark-Up	
			\$	%
Geneviève Proulx	\$12 to \$17	15,090		
CPPC	\$25 to \$35	29,955	14,865	98.5%
Gosselin	\$60	58,080	28,125	93.9%
Lafleur	\$125 to \$150	138,075	79,995	137.7%

In this example, the rate charged by Lafleur to APORS/CCSB was nine times greater than the amount paid to the subcontractor.

8.4.4 Subcontracted Production: Promotional Items

The purchase of promotional items by Lafleur Communication was subcontracted primarily to Publicité Désert.

The amounts billed by Publicité Désert in connection with these sales, which included an average mark up of 100%, were billed by Lafleur Communication to APORS/CCSB after a further commission of 17.65% was added.

Other suppliers to Lafleur Communication were Satellite for VIA Rail magazine, Yuri Kruk Communications Design Inc.<sup>1</sup>, Xylo Concept Graphique and Mirabau Serigraphie.

#### 8.4.5 Xylo Concept Graphique Inc.

Xylo Concept Graphique Inc. ("Xylo") is a company incorporated in 1994 and owned by Pierre Davidson. Xylo was created to manage and execute design, visual and/or artistic creation projects. Mr. P. Davidson, an architect by profession, was the only employee. During the period from 1995 to 1999, various projects were subcontracted to Xylo by Lafleur Communication, Publicité Dezert and Satellite for which Xylo issued invoices totaling \$828,135<sup>2</sup>, \$71,874 and \$73,285, respectively.<sup>3</sup>

A substantial part of Xylo's work from Lafleur Communication was subcontracted to PluriDesign. Xylo billed Lafleur Communication on a fixed fee basis as agreed with Lafleur. Two examples of Xylo's invoices to Lafleur show that the work sub-contracted to PluriDesign made up 79% and 73% of the amount billed by Xylo to Lafleur Communication.

Lafleur, in turn, in its billing to PWGSG for the work done by Xylo and PluriDesign, marked up the Xylo invoices by 129.5% and 119.1%. Notwithstanding the Xylo invoices did not disclose hours worked by P. Davidson relating to the particular Xylo invoice, Lafleur Communication billed PWGSC for hours purportedly worked by P. Davidson at the rate of \$180, being the rate stipulated in the Lafleur Communications SPS contracts for employees qualifying as Creation Director. We note that on one occasion the rate charged was \$100 per hour.

Tables 56 and 57 provide the details of the two Xylo invoices referred to above.

<sup>1</sup> The amount invoiced by Yuri Kruk Communications Design to Lafleur Communication is approximately \$1,300,000 according to the available accounting records. We note that Yuri Kruk paid \$243,000 to PluriDesign.

<sup>2</sup> The amount actually invoiced by Xylo to Lafleur Communications, based on Xylo's accounting records, is \$1,385,478.

<sup>3</sup> These amounts are based on the available accounting records.

Table 56: GRC - 125ème anniversaire (Contract no. EN771-7-0108)

Billed by	Hours	Hourly rate	Invoiced Amount	%
PluriDesign Canada			<u>60,000</u>	<u>79%</u>
Xylo Concept Graphique			<u>75,570</u>	<u>100%</u>
Lafleur Communication				
P. Davidson hours	474.5	180	85,410	
Maquettes (32x\$2,750)			<u>88,000</u>	
			<u>173,410</u>	<u>229.5%</u>

Table 57: VIA Rail - Logos (Contract EN771-08-0007)

Billed by	Hours	Hourly rate	Invoiced Amount	%
PluriDesign Canada			<u>60,000</u>	<u>73%</u>
Xylo Concept Graphique			<u>82,100</u>	<u>100%</u>
Lafleur Communication				
P. Davidson hours	89	180	16,020	
	209	100	20,900	
Maquettes (52x\$2,750)			<u>143,000</u>	
			<u>179,920</u>	<u>219.1%</u>

8.5

Financial Impact of Advertising and SPS Contracts on Results

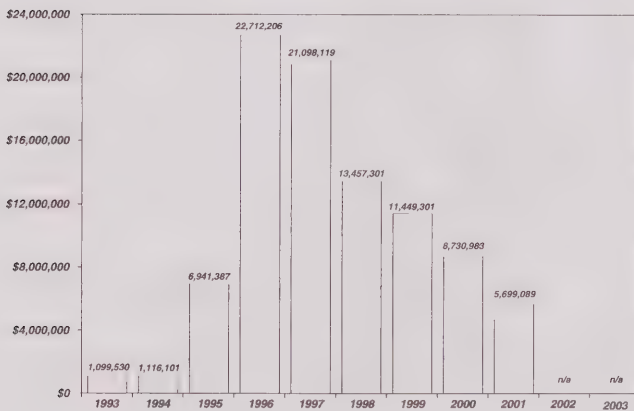
8.5.1 Lafleur Communication

Based on Lafleur Communication's income statement for the years ended December 31, 1993 to 2001, revenues, salaries and bonuses and net income were as follows:

Table 58: Lafleur Communication Revenues, Salaries and Bonuses and Net Income for the Years Ended December 31, 1993 to 2001

Year	Revenues	Salaries and Bonuses	Net Income
1993	1,099,530	245,794	11,027
1994	1,116,101	240,705	85,022
1995	6,941,387	1,469,048	129,660
1996	22,712,206	3,645,187	73,654
1997	21,098,119	3,669,150	(28,046)
1998	13,457,301	3,426,840	133,207
1999	11,449,301	2,319,664	(141,753)
2000	8,730,983	1,867,514	82,636
2001	<u>5,699,089</u>	<u>928,285</u>	<u>(36,686)</u>
<b>Total</b>	<b><u>\$92,304,017</u></b>	<b><u>\$17,812,187</u></b>	<b><u>\$308,721</u></b>

Table 58a - Lafleur Communication - Revenues



As shown in Table 58a, Lafleur Communication's revenue increased significantly after it started receiving contracts from the GOC; from \$1.1 million in revenue in 1993 and 1994 to a high of \$22.7 in 1996.

Based on Lafleur Communication's accounting records, this agency generated \$66.6<sup>1</sup> million in revenues from the GOC from 1996 to 2001 (the period for which revenue by client data is available), representing 85.9% of the revenues recorded in the accounting system for this period.

8.5.2 Publicité Dezert

Based on Publicité Dezert's statement of income for its financial years ended August 31, 1993 to 2000, revenues, salaries and bonuses and net income were as follows:

Table 59: Publicité Dezert Selected Financial Information for the Years Ended August 31, 1993 to 2001

Year	Revenues	Salaries and Bonuses	Net Income	Dividends
1993	41,413	-	9,655	-
1994	300,838	36,524	(4,607)	20,782
1995	340,501	52,317	12,708	-
1996	1,188,642	30,000	188,203	34,100
1997	3,451,250	720,000	136,461	300,000
1998	1,800,654	58,500	117,991	125,000
1999	1,488,514	170,000	154,259	123,000
2000	1,496,637	82,696	134,400	102,452
2001	<u>334,775</u>	<u>-</u>	<u>21,834</u>	<u>66,334</u>
<b>Total</b>	<b><u>\$10,443,224</u></b>	<b><u>\$1,150,037</u></b>	<b><u>\$770,904</u></b>	<b><u>\$771,668</u></b>

As shown in the table above, Publicité Dezert's revenue and net income increased significantly after 1995, which coincides with the period when Lafleur Communication started receiving contracts from the GOC.

<sup>1</sup>This amount includes \$28.6 million of advertising revenues from Crown Corporations.

The salaries of \$1,150,037 were paid for the most part to Mr. Eric Lafleur.

Based on Publicité Dezert's accounting records, this company generated at least \$6.3 million in revenues from Lafleur Communication from 1996 to 2001 (the period for which revenue by client data is available), representing 65% of the revenues recorded in the accounting records for this period. Revenues from Crown Corporations (including VIA Rail and Business Development Bank of Canada) represented another 6.3% of these total revenues.

Publicité Dezert ceased its operations on August 15, 2001.

## 8.6

### Notable Uses of Funds by Lafleur

#### 8.6.1 Salaries and Dividends

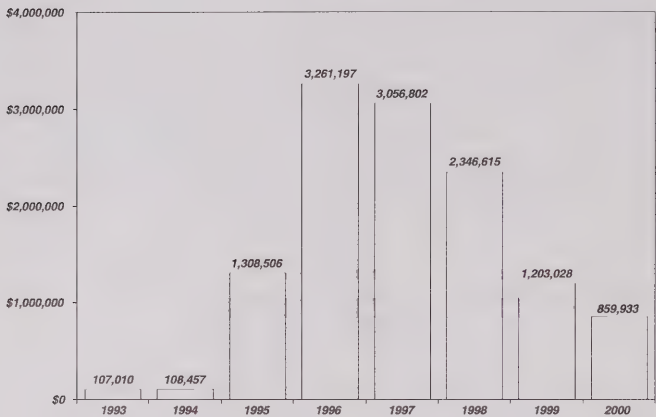
##### Salaries

Based on their personal tax returns, T4 slips or other information provided to the COI, Mr. J. Lafleur, Ms Dyane Lafleur, Ms Julie Lafleur and Mr. Eric Lafleur received from Lafleur Communication a total of \$12.3 million in salaries between 1993 and 2000, as detailed in the following Tables:

Table 60: Salaries Paid by Lafleur Communication to Mr. Jean Lafleur and Family Members for the Years Ended December 31, 1993 to 2000

Year	Jean Lafleur	Dyane Lafleur	Julie Lafleur	Eric Lafleur	Total
1993	107,010	-	-	-	107,010
1994	108,457	-	-	-	108,457
1995	815,184	241,610	103,751	147,961	1,308,506
1996	2,487,869	254,183	92,051	427,094	3,261,197
1997	2,454,350	161,667	137,995	302,790	3,056,802
1998	1,948,044	254,081	54,740	89,750	2,346,615
1999	871,942	160,396	82,571	88,119	1,203,028
2000	<u>642,884</u>	<u>122,139</u>	<u>-</u>	<u>94,910</u>	<u>859,933</u>
<b>Total</b>	<b><u>\$9,435,740</u></b>	<b><u>\$1,194,076</u></b>	<b><u>\$471,108</u></b>	<b><u>\$1,150,624</u></b>	<b><u>\$12,251,548</u></b>

Table 60a - Lafleur Communication - Salaries Paid to Jean Lafleur and Family Members



Dividends

Dividends amounting to \$150,000 and \$300,000 respectively were paid by Lafleur Communication to its shareholders during the years ended December 31, 1994 and 1995.

8.6.2 Political Contributions

Lafleur Communication, between 1997 and 2002, donated \$66,850 as set out in Schedule I8 to the Liberal Party of Canada. Members of the Lafleur family donated a further \$8,454 to the Liberal Party.



## 8.7

## The Sale of Lafleur

## 8.7.1 Sale of Lafleur Communication to Communications Groupdirect Inc.

On January 17, 2001, 157146 Canada Inc. sold all the shares it held in Lafleur Communication to Communications Groupdirect Inc., a company controlled by Mr. J. Brault. The transaction was effective as at January 1, 2001.

The minimum sale price for the shares, as per the sale agreement, was \$1.1 million. This price could be adjusted upward to a maximum of \$3.2 million (clause 4.1 of the agreement). Payments were to be made in three installments. According to Jean Lafleur, a balance is still owing by J. Brault with regards to this transaction.



## SECTION NINE

# DETAILED FINDINGS— GOSSELIN

## 9.1

## Business Description

Gosselin Communications Stratégiques Inc. ("Gosselin Communications") was incorporated by Gilles-André Gosselin as of April 28, 1997 and, on the same day, acquired the net assets of Gosselin et Associés Communications Stratégiques Inc. ("Gosselin & Associés").

Gosselin & Associés, was a small consulting firm incorporated on June 17, 1993 and controlled by Mr. Gilles-André Gosselin. His wife, Mrs. Andrée Côté Gosselin, was also a shareholder and a director.

Gosselin & Associés operated out of Montréal and offered communication consulting services to its clients which were essentially from the public sector, including PWGSC and a few other departments of the GOC.

Gosselin & Associés' revenues were approximately \$250,000 per year. After taking into consideration Mr. G.A. Gosselin's salary and that of his wife, profits left in the firm were nominal.

During the period from April 28 to December 31, 1997, Gosselin Communications had only three employees on its payroll: Mr. G.A. Gosselin, Mrs. A. Côté Gosselin and Mr. Nicolas Gosselin. The company, which started recruiting its own personnel in early 1998, operated until October 1, 1998 when it sold its fixed assets and goodwill to Groupaction.

## 9.2

### Selection Process

On April 28, 1997, Gosselin Communications was among a group of ten agencies selected to act as APORS communication agencies.

During the month of April 1997, Mr. G.A. Gosselin started working on various sponsorship projects, including the Trans Canada Trail project and the Tulip Festival. The contract for these projects was only issued as at April 28, 1997. The first invoices issued by Gosselin Communications to APORS in connection with this contract are dated April 28, 1997. One of these invoices is related to the Tulip Festival. Attached as back up to this invoice are two invoices dated April 1, 1997 in the amount of \$75,000 each from the organizers of the Tulip Festival. The hours charged to the Trans Canada Trail project for work performed in April 1997 were billed to CCSB in January 1998.

We are not aware of any departmental agency selection process other than the 1997 PWGSC selection, in which Gosselin was chosen as the communications agency.

## 9.3

## Contracts with GOC

## 9.3.1 SPS Contracts

The first SPS contract awarded to Gosselin Communications was contract EN771-7-0027 for an initial amount of \$985,000 subsequently amended to \$1,367,270. The contract, dated April 28, 1997, included several events, in particular the Trans Canada Trail and Tulip Festival events.

Over the 1997-98 and 1998-99 GOC fiscal years, Gosselin Communications was awarded SPS contracts with a total value of \$21.2 million, as detailed in Table 61:

Table 61: Gosselin SPS Contracts

Year	Contracts with Gosselin Communications	Directions with Genesis Media or Média/I.D.A. Vision	Total
1994-95	-	-	-
1995-96	47,500	-	47,500
1996-97	-	-	-
1997-98	6,969,293	97,000	7,066,293
1998-99	<u>6,163,541</u>	<u>7,931,435</u>	<u>14,094,976</u>
<b>Total</b>	<u><b>\$13,180,334</b></u>	<u><b>\$8,028,435</b></u>	<u><b>\$21,208,769</b></u>

Our review indicates that the \$21.2 million was committed to be spent for the following purposes:

Table 62: Kroll Analysis of Selected Gosselin SPS Contracts

	Gosselin Communications	Genesis Media or Média/I.D.A. Vision	Total
Sponsorship:			
1997-98	4,066,095	-	4,066,095
1998-99	<u>342,900</u>	<u>6,896,900</u>	<u>7,239,800</u>
Total sponsorship	4,408,995	6,896,900	11,305,895
Media Placement	-	82,450	82,450
AOR Commissions	-	210,059	210,059
Communication Agency Commissions	1,368,085	-	1,368,085
Production Costs And Professional Fees <sup>1</sup>	<u>8,242,280</u>	<u>-</u>	<u>8,242,280</u>
<b>Total</b>	<b><u>\$14,019,360</u></b>	<b><u>\$7,189,409</u></b>	<b><u>\$21,208,769</u></b>

Our review also indicates that a total amount of \$20,862,272 was billed to APORS/CCSB in relation to these contracts. Detailed findings are contained in Exhibit P-257(a).

### 9.3.2 Advertising Contracts

During the fiscal year ended March 31, 1998, Gosselin Communications was awarded two advertising contracts for a total value of \$1,500,000.

These advertising contracts are: Privy Council Office - contract 35035-7-5225 for \$300,000; Industry Canada - contract U1020-7-0072 for \$1,200,000.

This latter contract was sub-contracted by Gosselin to Cossette Communication. A net commission of \$76,757 was earned by Gosselin Communications in the process.

Section 7 contains detailed comments on this contract.

<sup>1</sup> This amount includes payments to external suppliers and to CPPC.

## 9.4

## Management of Contracts

## 9.4.1 General Observations

Table 63 shows that the management fees charged on an hourly basis against the production budgets was four times greater than the amount of the communication agency commission charged by this agency:

**Table 63: Gosselin Communications - Comparison of Communication Agency 12% Commissions to Management Fees**

Event	Communication Agency		
	Commission	Agency Time Charges	
	(\$)	(Hours)	(\$)
Unforeseen Events	35,322	1,247.0	146,592
Fêtes du 250 <sup>ème</sup> de Saint-Hyacinthe	15,000	569.5	53,000
Ottawa Senators	86,917	3,414.3	386,718
Parc des Champs de Bataille	28,200	2,899.8	424,706
Rendez-vous Canada	64,200	3,935.6	442,314
125 <sup>ème</sup> anniversaire de la GRC	<u>138,720</u>	<u>804.0</u>	<u>107,495</u>
<b>Total</b>	<u><b>\$368,359</b></u>	<u><b>12,870.0</b></u>	<u><b>\$1,560,824</b></u>

A detailed listing of these contracts is attached as Schedule I9.

The contracts do not clearly differentiate between which services are to be covered by the 12% commission and which services can be billed separately on a hourly basis.

The hours charged by Mr. G.A. Gosselin to APORS/CCSB and Lafleur Communication exceeded 3,600 hours during the GOC fiscal year 1997-98. These hours would be in addition to any hours needed by Mr. G.A. Gosselin to perform work in respect of the 12% commission, and any other tasks required by an owner of an agency.

#### 9.4.2 Subcontracted Production: Professional Fees

During the period from April 27 to December 31, 1997, Gosselin Communications had only three employees on its payroll: Mr. G.A. Gosselin, Mrs. A. Côté Gosselin and Mr. Nicolas Gosselin.

Professional services were provided by subcontractors recruited from placement agencies or directly by Gosselin Communications. The hours charged by these subcontractors for work performed on sponsorship contracts were billed to APORS as if these subcontractors were employees of Gosselin Communications.

The amounts billed to APORS/CCSB were based on the hours charged by the subcontractors and the hourly rates indicated in the Gosselin sponsorship contracts for specific job descriptions.

The primary placement agency to Gosselin Communications was CPPC, a company incorporated on September 10, 1996 and owned by Mr. G.A. Gosselin's wife, Mrs. A. Côté Gosselin.

CPPC had two employees, Mrs. A. Côté Gosselin and one other person. The company was using the services of subcontractors assigned to work on specific sponsorship projects on behalf of Gosselin Communications. CPPC marked up its billing to Gosselin Communications for fees paid to subcontractor by an average of 94%.

During the period from January 1 to September 30, 1998, Gosselin Communications started recruiting its own personnel while still employing, but to a much lesser extent, the services of subcontractors.

#### 9.4.3 Subcontracted Production: Promotional Items

CPPC was also the primary provider of promotional material, such as clothing apparels, to Gosselin Communications. CPPC marked up clothing items by an average of 22% and other promotional items by an average of 96%. These subcontracted amounts were then billed by Gosselin Communications to APORS/CCSB after an additional commission of 17.65% was added to the Gosselin invoice.



Based on our analysis, sales to Gosselin Communications during the year December 31, 1997 and the nine month period ended September 30, 1998 represented 86% of CPPC total sales during these periods.

## 9.5

### Financial Impact of Advertising and SPS Contracts on Results

#### 9.5.1 Gosselin Communications

Based on Gosselin Communications statement of income for the eight month period ended December 31, 1997 and the nine month period ended September 30, 1998, revenues, salaries and bonuses and net income were as follows:

Table 64: Gosselin Communications Selected Financial Information

	<u>Revenues</u>	<u>Salaries and Bonuses</u>	<u>Net Income</u>
1997 (8 months)	2,985,134	585,191	92,851
1998 (9 months)	<u>11,339,033</u>	<u>3,478,841</u>	<u>160,344</u>
<b>Total</b>	<b><u>\$14,324,167</u></b>	<b><u>\$4,064,032</u></b>	<b><u>\$253,195</u></b>

Salaries for the years ended December 31, 1997 and 1998 were \$115,191 and \$963,841 respectively. These salaries include a total amount of \$232,567 paid to Mr. G.A. Gosselin, \$104,463 paid to Mrs. A. Côté Gosselin and \$11,575 to Mr. Nicolas Gosselin.

In addition to these salaries, bonuses amounting to \$470,000 and \$2,515,000 respectively were declared to Mr. G.A. Gosselin during these years.

Contracts awarded by APORS/CCSB to Gosselin Communications accounted for 84% of its revenues, and contracts awarded by other federal departments to this agency, accounted for another 12% of its revenues.

In addition, Gosselin Communications earned revenues of \$405,085 from the subcontractor work it billed to Lafleur Communication in connection with the Bluenose project.

Gosselin Communications received various amounts directly from the organizers of certain sponsored events (e.g. Rendez-vous Canada).

9.5.2 CPPC

Based on CPPC statement of income for the financial year ended December 31, 1997 and the period from January 1 to September 30, 1998, revenues, salaries and bonuses and net income were as follows:

Table 65: CPPC Selected Financial Information

	Revenues	Salaries and Bonuses	Net Income
1997 (12 months)	279,343	18,543	58,580
1998 (9 months)	<u>617,833</u>	<u>110,250</u>	<u>20,816</u>
<b>Total</b>	<b><u>\$897,176</u></b>	<b><u>\$128,793</u></b>	<b><u>\$79,396</u></b>

Based on our analysis, sales to Gosselin Communications during the year December 31, 1997 and the nine month period ended September 30, 1998 represented 86% of CPPC total sales during these periods.

The salaries of \$128,793 were paid for the most part to Mrs. A. Côté Gosselin.

In addition to these salaries, dividends amounting to \$78,714 were declared and paid to Mrs. A. Côté Gosselin during these years.

CPPC ceased its activities as of October 1, 1998 when Mrs. Gosselin sold its shares to Groupaction.

9.5.3 Portage Promotion

Portage Promotion ("Portage") was incorporated by Mrs. A. Côté Gosselin in October 1998, immediately after the sale of CPPC's shares to Groupaction. Officially, the founding shareholder and president of Portage Promotion was her son Nicolas Gosselin.

Portage was created for the purpose of continuing the activities of CPPC. We understand that CPPC had no activities after the sale to Groupaction. Portage became the primary provider of promotional material to Groupaction Gosselin Communications (formerly 3522610 Canada Inc.).

Based on Portage statement of income for the financial years ended September 30, 1999 to 2001, revenues, salaries and bonuses and net income were as follows:

Table 66: Portage Promotion Selected Financial Information

	Revenues	Salaries and Bonuses	Net Income
1999	983,799	99,471	119,409
2000	781,643	124,957	(1,881)
2001	<u>84,931</u>	<u>73,152</u>	<u>(108,794)</u>
<b>Total</b>	<b><u>\$1,850,373</u></b>	<b><u>\$297,580</u></b>	<b><u>\$8,734</u></b>

Based on our analysis, sales to Groupaction Gosselin during the financial years ended September 30, 1999 to 2001 represented approximately 90% of Portage total sales during these periods.

The salaries include \$38,533 and \$97,396 paid to Mrs. A.C. Gosselin and Nicolas Gosselin respectively.

## 9.6

### The Sale of Gosselin Communications

In January 1999, Gosselin Communications entered into a sale agreement with 3522610 Canada Inc., a company owned indirectly by Mr. Jean Brault of Groupaction, to sell its fixed assets and goodwill. The agreement was signed on January 22, 1999 but was effective as of October 1, 1998.

The amount agreed upon with respect to the fixed assets was \$223,979, including \$100,000 paid immediately, \$30,995 paid during the 1999-00 financial year and \$92,985 paid in 2002.

The sale price for the goodwill was to be calculated based on a formula that would take into account the net profits to be earned by 3522610 Canada Inc. over the next four years of operations.

The amount paid with respect to the goodwill was \$275,000 paid as a bonus for the year ended September 30, 1999 and \$6,500 paid as a bonus for the year ended September 30, 2000.

In addition, the sale agreement included an employment contract for Mr. G.A. Gosselin, whereby he undertook to manage the operating expenses to be incurred by 3522610 Canada Inc. in connection with SPS contracts. This contract was terminated in September 2000. The salaries paid by 3522610 Canada Inc. in connection to the employment contract were \$200,000 for the year ended September 30, 1999, including \$51,923 paid to Mrs. A. Côté Gosselin, and \$122,305 for the year ended September 30, 2000.

A final release was signed by Mr. G.A. Gosselin on March 1, 2002, acknowledging full receipt of the amounts due to Gosselin Communications and to himself.

On January 22, 1999, Mrs. A. Côté Gosselin also entered into a sale agreement with 3522610 Canada Inc. to sell all the outstanding shares of CPPC. The agreement was effective as of October 1, 1998. The sale price was set at \$510,000, including \$300,000 paid immediately, \$52,500 paid during the year ended September 30, 2000 and \$157,500 paid in 2002. A final release was signed by Mrs. A. Côté Gosselin on March 1, 2002 acknowledging full receipt of the \$510,000.

SECTION TEN

## DETAILED FINDINGS— GROUPACTION

### 10.1

#### Business Background

Mr. J. Brault and his wife, Ms Joane Archambault, started Groupaction Marketing Inc. ("Groupaction") in 1982.

The main operating companies were:

- a) Groupaction Marketing - the primary advertising and marketing company; and
- b) Alléluia Design ("Alléluia") - a company operating in the field of artistic and graphic design.

In November 1997 Groupaction Nouveaux Médias ("Groupaction") was incorporated to operate in the fields of interactive media and web sites.

In May 1998 Impact Splash was incorporated to operate in the field of communication services related to events and sponsorships, both GOC and private sector.

Effective October 1, 1998, Mr. J. Brault, through 3522610 Canada Inc., purchased the assets of Gosselin Communications Stratégiques. This numbered company operated as Groupaction Gosselin Communication Stratégique and changed its operating name in 2002 to Gosselin Relations Publiques. We have referred to this company as "Groupaction/Gosselin".

In October 1999 Communication Groupdirect was incorporated. In January 2001 this company purchased Jean Lafleur Communication Marketing.

In addition to the above-noted operating companies, three separate entities were created for the purchase of the four buildings occupied by Groupaction and related operating companies.

Exhibits C-291(A), pages 3-7 contain corporate organization charts for the Brault group of companies.

## 10.2

### GOC Selection Process

#### 10.2.1 Groupaction's First Dealings with the GOC

In January 1995 Groupaction secured their first advertising contract from CRTC.

Groupaction was awarded its first SPS contract on July 2, 1996, well before the APORS SPS qualification process referred to in Table 67.

#### 10.2.2 Selection Process

The Table below sets out the known agency selection competitions where Groupaction was the winning agency or member of the winning consortium. A listing of all known selection competitions has been compiled and produced as Exhibits P-416(A) and P-416(B).

Table 67: Groupaction - Agency Selection Competitions

Final Report Date	GOC Department	Winning Agency or Consortium
1993	Justice	A consortium including Groupaction
December 9, 1994	Canadian Radio-Television and Telecommunications Commission	Groupaction
May 17, 1995	Revenue Canada – Québec Region	Groupaction
November 23, 1995	Agriculture and Agrifoods Canada	P.A.C.T. (Palmer Jarvis / Groupaction / Compass Communications / The Ongoing Partnership)
April 28, 1997	PWGSC (SPS Contracts)	Groupaction and 9 other agencies
November 26, 1997	Treasury Board Secretariat of Canada	Groupaction
February 2, 1999	Department of National Defence	Groupaction
September 1, 2000	Canada Information Office	Ensemble Consortium (Coffin / Groupaction / Vickers & Benson / Compass / Palmer Jarvis)
December 13, 2000	Industry Canada	Vision 4 (Acart / Palmer Jarvis / Groupaction)
May 11, 2001	PWGSC	Groupe Everest; Gosselin; Lafleur; Groupaction; TNC Multicom; Compass; Armada; Bristol; Coffin <sup>1</sup>

### 10.3

## Contracts with GOC

### 10.3.1 SPS Contracts

Companies owned by Mr. J. Brault managed SPS contracts with a total value of \$89.5 million. Groupaction managed \$60.8 million, Groupaction/Gosselin \$23.1 million and Lafleur Communication \$5.6 million. Of the total contract value of \$89.5 million, \$60.1 million was contracted via directions with Média/I.D.A. Vision.

### SPS Contracts with Groupaction

Between 1996-97 and 2001-02 GOC fiscal years, Groupaction managed SPS contracts with a total value of \$60.8 million, as detailed in Exhibit C-292 pages 2 to 23 and summarized in the following Table:

<sup>1</sup> Groupaction/Gosselin, Lafleur Communication and Groupaction were all controlled by Jean Brault at the time of the PWGSC competition.

Table 68: SPS Contracts Managed by Groupaction for GOC Fiscal Years 1996-97 to 2001-02

Year	Contracts with Groupaction	Directions with Média/I.D.A. Vision	Total
1996-97	830,000	-	830,000
1997-98	10,404,058	-	10,404,058
1998-99	3,884,960	\$10,924,345	14,809,305
1999-00	2,065,260	9,629,750	11,695,010
2000-01	1,105,648	13,208,900	14,314,548
2001-02	<u>1,644,994</u>	<u>7,130,000</u>	<u>8,774,994</u>
<b>Total</b>	<b><u>\$19,934,920</u></b>	<b><u>\$40,892,995</u></b>	<b><u>\$60,827,915</u></b>

SPS Contracts with Groupaction/Gosselin

Between 1998-99 and 2002-03 GOC fiscal years, subsequent to its purchase by Brault, Groupaction/Gosselin managed SPS contracts with a total value of \$23.1 million, as detailed in Exhibit P-27I, pages 2 to 2I and summarized in the following Table:

Table 69: SPS Contracts Managed by Groupaction/Gosselin for GOC Fiscal Years 1998-99 to 2002-03

Year	Contracts with GRP	Directions with Média/I.D.A. Vision	Total
1998-99	1,921,310	264,500	2,185,810
1999-00	3,788,940	3,831,660	7,620,600
2000-01	3,640,041	1,909,000	5,549,041
2001-02	412,595	6,177,915	6,590,510
2002-03	<u>14,070</u>	<u>1,099,975</u>	<u>1,114,045</u>
<b>Total</b>	<b><u>\$9,776,956</u></b>	<b><u>\$13,283,050</u></b>	<b><u>\$23,060,006</u></b>



**SPS Contracts with Lafleur Communication**

Between January 17, 2001, when it was purchased by Brault, and the 2002-03 GOC fiscal year, Lafleur Communication Marketing managed SPS contracts with a total value of \$5.6 million, as detailed in Exhibit P-216 pages 2 to 42 and summarized in the following Table:

**Table 70: SPS Contracts Managed by Lafleur Communication Marketing For GOC Fiscal Years 2000-01 to 2002-03**

<b>Year</b>	<b>Contracts with Lafleur</b>	<b>Directions with Média/I.D.A. Vision</b>	<b>Total</b>
2000-01	2,240	-	2,240
2001-02	94,701	5,332,010	5,426,711
2002-03	3,484	155,250	158,734
<b>Total</b>	<u><b>\$100,425</b></u>	<u><b>\$5,487,260</b></u>	<u><b>\$5,587,685</b></u>

**10.3.2 Advertising Contracts**

Between 1994-95 and 2002-03, Groupaction acted as communication agency for advertising contracts with a maximum value of \$112.1 million. A significant portion of these contracts were awarded in 2000-01 (\$47.3 million) and in 2001-02 (\$31.5 million). A complete list of the advertising contracts is included as Schedule 10 of this report.

Of the \$112.1 million, at least \$81.2 million represented media placement. As the communication agency, Groupaction would receive a commission of 11.75% of the media purchased.

The remaining \$30.1 million represents production costs consisting of Groupaction fees and mark-ups, payments to third party suppliers and other direct costs.

10.4

Management of Contracts

10.4.1 Findings on SPS Contracts

Significant SPS Events Managed by Groupaction

In total \$42.3 million, or 69.5% of all SPS contracts managed by Groupaction from 1996-97 to 2001-02 were related to Groupe Polygone and Expour events. The percentage increases to 87.3% for the years 1999-2000 to 2001-02, as depicted by the following Table:

Table 71: SPS Contracts Managed by Groupaction Related to Groupe Polygone and Expour Events for GOC Fiscal Years 1996-97 to 2001-02

Year	Total SPS Contracts	Contracts Related to Groupe Polygone and Expour Events	
		\$	%
1996-97	830,000	-	0.0%
1997-98	10,404,058	\$3,538,458	34.0%
1998-99	14,809,305	8,388,499	56.6%
1999-00	11,695,010	9,891,000	84.6%
2000-01	14,314,548	12,597,900	88.0%
2001-02	<u>8,774,994</u>	<u>7,889,592</u>	<u>89.9%</u>
Total	<u>\$60,827,915</u>	<u>\$42,305,449</u>	<u>69.5%</u>

A detailed listing of events is attached as Schedule 4. Other significant SPS contracts managed by Groupaction include the following:

- Nagano Olympic Games - \$5.95 million;
- Community information newspapers - \$3.6 million;
- Opportunity analysis (3) - \$1.63 million;
- CD-Rom Dessin Animé (Mimi) - \$1.3 million (plus another EP04I contract included in "advertising" based on the contracting vehicle utilized); and
- Grand Prix du Canada - \$1.26 million.

### **Remuneration from Groupe Polygone and Expour**

As set out on Schedule 20, Groupaction and related companies received \$2.1 million from Groupe Polygone, Expour or other companies controlled by Mr. Luc Lemay. The accounting records of the Groupaction companies reflect these funds as fees for a variety of services, including, for example, management services for the outdoor sporting shows or salons promoted by Lemay.

### **Commissions on Amounts Sub-Contracted to Related Parties**

In order to execute an SPS contract, Groupaction would utilize the services of its various affiliated companies to fulfill the contract requirements, particularly Alléluia and Groupaxion.

Services provided to Groupaction by Alléluia and Groupaxion would typically be billed to the GOC with a commission of 17.65% added to the amount of the invoices.

### **Work Invoiced to GOC Not Supported by Subcontractor Records**

The nature of services described in the inter-company billings were often vague and the basis of how the billing amounts were determined were not indicated.

For example Alléluia issued an invoice to Groupaction for production fees of \$38,000 associated with the 1998 Grand Prix of Canada (Exhibit C-309 pages 64 to 67). The invoice describes fees associated with research, models, mounting and production of materials for miscellaneous signs.

Docket summaries from Alléluia's accounting system provide details as to the nature of work performed and hours charged by individuals on any specific project or docket. The docket summary associated with the Grand Prix invoice does not indicate any specific costs associated with the type of activities listed in the invoice (research, models, production of materials for various posters) nor does it provide for any hours worked by employees of Alléluia.

Groupaction charged the GOC a 17.65% commission on this invoice.

### **Failure to Obtain Quotes**

SPS contracts required Groupaction to obtain 3 quotes on sub-contracted amounts over \$25,000.

Based on our review of documents, Groupaction did not obtain three quotes on sub-contracted amounts of \$25,000 or more prior to 2001. During the 2001-02 GOC fiscal year, consistent with our understanding of stricter management by PWGSC and Communication Canada, Groupaction started sending quotes to PWGSC for the production budgets associated with the Groupe Polygone and Expour events.

#### **10.4.2 Findings on Advertising Contracts**

### **Failure to Obtain Quotes**

Advertising contracts required Groupaction to obtain three quotes on sub-contracted amounts of \$25,000 or more. Based on the advertising contracts reviewed by Kroll, it appears that Groupaction did not obtain three quotes on sub-contracted amounts over \$25,000 prior to 2001.

### **Commissions on Amounts Sub-Contracted to Related Parties**

Based on the advertising contracts reviewed by Kroll, Groupaction billed the GOC a mark-up on work performed by Alléluia, an artistic and graphic design company associated with Groupaction.

## **10.5**

### **Findings in Relation to Specific Events**

Based on our review of specific SPS events managed by Groupaction, we have the following findings:

#### **10.5.1 Summary Comments - Events Associated with Groupe Polygone & Expour**

- Expour and Groupe Polygone generated over \$25 million in profits before income taxes during the years they received SPS funding (as detailed in Section 11.4 of this report). During that same period of time revenues from the GOC represented 35.5% of Groupe

Polygone revenues and 46.1% of Expour revenues, as detailed in Exhibit P-329 items I, 2 and II.

- Mr. L. Lemay's companies paid a total of \$4.8 million to PluriDesign Canada.
- Mr. L. Lemay's companies paid a total of \$2.1 million to Mr. J. Brault's companies.
- The amount of sponsorship decreased significantly starting in 2000-01 for some of the salon events (detailed in Section I.2 of Appendix F), while the GOC continued to receive the same visibility.

#### 10.5.2 *Almanach du Peuple*

- The stated purpose of this event was to provide visibility to the GOC in the *Almanach du Peuple*, an annual publication edited and produced by Groupe Polygone. Examples of the visibility obtained through this sponsorship initiative are included at Appendix J of this report.
- For the content received, the GOC paid a rate per page that was higher than the advertising rate published by the *Almanach du Peuple*.
- For the 2002 edition of the *Almanach du Peuple*, the Government of Québec purchased approximately 80 pages of content (78 pages plus the inside front cover and spine) at a cost of \$58,000, representing a cost per page of \$725. For the same edition of the *Almanach du Peuple*, the GOC purchased 116 pages of content at a total cost of \$525,000 (this amount does not include the production budget and the commissions paid to the agencies), representing a cost per page of approximately \$4,500, more than six times the price per page paid by the Government of Québec.

#### 10.5.3 *Magazines Nationaux & Régionaux*

- The stated purpose of these events was to provide visibility to the GOC in magazines edited, published or managed by Groupe

Polygone. Examples of the visibility obtained through these sponsorship initiatives are included in Appendix I of this report.

- Based on our review of the available documentation, we have not identified any document that would show how the value of the visibility received by the GOC was determined.

Mr. L. Lemay sent a letter to Groupaction on July 26, 2002 describing the visibility to the GOC for the "Magazines Nationaux - Régionaux" events. Some of the visibility identified actually relates to visibility provided under other SPS events (i.e. Radio capsules), as demonstrated in Appendix I of this report. It appears the value of this visibility was claimed for two distinct SPS events.

#### 10.5.4 Journal de Montréal & Journal de Québec

- Based on the information reviewed, the visibility related to this event was obtained by the publication of 21 separate posters distributed in the *Journal de Montréal* and the *Journal de Québec* on 21 separate occasions. At a total cost of \$2.9 million for the GOC, this represents approximately \$137,000 per poster. An example of the visibility obtained through this sponsorship initiative is included in Appendix K of this report.
- None of the information reviewed indicated that CCSB approved the posters and resulting visibility prior to their publication.
- Groupe Polygone and Groupaction have not provided information indicating the level of visibility provided (for example number of posters distributed).

### 10.5.5 Radio Capsules

- The stated purpose of these events was to provide funding for a series of radio message campaigns providing tips on various topics, such as hunting, fishing and the outdoors, the economy, health, environment, agriculture and food, security and housing. Examples of the visibility obtained through this sponsorship initiative are included at Appendix H of this report.
- The GOC was the only source of funds for the radio capsules, representing contracts with a total value of \$15.9 million.
- The radio capsules involved the production and airing of radio messages. These steps are consistent with an advertising campaign.
- For advertising campaigns, the media placement is usually purchased through the AOR, with documentation supporting the value of the media placements usually sent by the AOR to CCSB or Communication Canada. This was not the case with the radio capsules.
- The entire SPS amounts were paid to Groupe Polygone. Groupe Polygone did not provide CCSB or Communication Canada with a breakdown of the costs associated with the event, or the actual amounts paid for the radio airtime.
- The radio messages provided free advertising or visibility for the narrators of the messages and their business vehicles. As an example, *Sentier Chasse-Pêche*, a magazine owned by Mr. L. Lemay, obtained free exposure in some of the radio messages.

### 10.5.6 Salons

- The stated purpose of these events was to provide funding for hunting, fishing and outdoors shows or salons, and a few agriculture and First Nations-related shows or salons.

#### Salon National du Grand Air de Québec (1999-2000)

- The 2000 edition of the *Salon National du Grand Air* in Québec City was cancelled by Expour.
- The entire sponsorship amount (\$333,043) and related agency commissions (\$49,957) were already paid to Expour, Groupaction and Média/I.D.A. Vision at the time of cancellation.
- Mr. Guité issued a letter, prior to his retirement, instructing Groupaction and Expour to replace any cancelled events by visibility in other events.
- For four regional salons held in St-Jérôme, Drummondville, Baie-Comeau and Rouyn-Noranda, costs incurred by Expour for the "replacement" visibility was \$5,250. This cost included booths where Groupe Polygone promoted their *Sentier Chasse-Pêche* magazine.

#### Salon International de la Machinerie Agricole (1999-2000)

- The 2000 edition of the Salon International de la Machinerie Agricole was cancelled due to a tear in the Olympic Stadium's roof.
- The entire sponsorship amount (\$508,695) and related agency commission (\$76,305) were already paid to Expour, Groupaction and Média/I.D.A. Vision at the time of cancellation.
- Mr. Guité issued, prior to his retirement, a letter instructing Groupaction and Expour to replace any cancelled events by visibility in other events.



- No documents were found in the GOC files, or in the documents provided to the COI by Groupe Polygone, regarding replacement visibility having been provided to the GOC.

#### **Salons Chasse et Pêche - Trois-Rivières & Sherbrooke**

- Expour received \$1.6 million in SPS funding from 1998-99 to 2002-03 for hunting and fishing salons in Trois-Rivières (\$804,348) and Sherbrooke (\$804,348).
- Unlike salons in Montréal, Québec City, Chicoutimi and Rimouski, Expour was not the promoter of the events in Trois-Rivières and Sherbrooke. Rather, Mr. Gaétan Mondoux and his company, Exposition C.P., was the promoter of these two salons.
- Expour paid Exposition C.P. \$100,000 from 1999 to 2003 to acquire the sponsorship rights associated with these two salons.
- Based on the itemized descriptions on PluriDesign's invoices, Expour also paid PluriDesign Canada \$1 million in fees related to these events, \$485,475 for Trois-Rivières and \$530,125 for Sherbrooke, respectively.
- Based on the review of Expour's financial records, there does not appear to be any other significant costs associated with these events.

#### **Salon Chasse et Pêche - Régionaux**

- Expour received \$525,000 in SPS funding during 2000-01 for regional hunting and fishing salons.
- A further \$250,000 in SPS funding was approved for regional hunting and fishing salons for 2001-02. Expour received \$125,000 and the balance was not paid by the GOC.
- Expour purchased visibility in regional salons. The documents associated with these events indicate that four or five regional salons were to provide visibility for the GOC.

- Unlike salons in Montréal, Québec City, Chicoutimi and Rimouski, Expour was not the promoter of these regional salons.
- The invoices located for the specific regional salons (Rouyn-Noranda, Baie-Comeau and St-Jérôme) indicate that Expour paid the event organizers \$1,000 per salon to obtain the visibility, for a total cost of approximately \$5,000, leaving Expour with \$520,000 of the \$525,000 received from the GOC for 2000-2001. Similar costs were incurred in 2001-2002.
- Expour also paid PluriDesign Canada \$90,000 in fees related to this event during 2000-01. This amount is based on the itemized descriptions on PluriDesign's invoices.
- Based on the review of Expour's financial records, there do not appear to be any other significant costs beyond the \$5,000 paid for the visibility associated with these events.

#### **Rendez-Vous Autochtone**

- Rendez-Vous Autochtone is an event within the Salon National du Grand Air de Montréal. Rendez-Vous Autochtone received its own SPS funding in 2000-01 (\$245,000) and in 2001-02 (\$230,000).
- The Salon National du Grand Air de Montréal was already receiving significant SPS funding from the GOC: \$1,063,750 in 2000-01 and \$1,110,960 in 2001-02.
- It should be noted that the requests for the two events were not sent to CCSB at the same time. The request for the Salon National du Grand Air de Montréal was sent prior to the start of a new fiscal year. The requests for Rendez-Vous Autochtone were sent eight to nine months later.

- It is not known if CCSB recognized the fact that Rendez-Vous Autochtone was part of the Salon National du Grand Air de Montréal, or if it did know, why it decided to sponsor the event, or if they received more visibility than they would have received otherwise.

#### 10.5.7 Grand Prix of Canada

- Groupaction managed the SPS contract for the Grand Prix of Canada event in 1998.
- The final amount paid by the GOC for this event included \$900,000 in sponsorship and \$114,000 in production costs, for a total of \$1,014,000 paid to GPFI, the promoter of the event.
- A document accompanying, but not necessarily part of the contract between GPFI and Groupaction indicates that "the deal" is actually \$700,000 in sponsorship, \$50,000 in production costs, and \$264,000 in tickets for the 3-day event (230 daily tickets for a total of 690 tickets). 30 of these 3-day tickets were for the "paddock club", at a cost of \$2,800 each. A further 110 3-day tickets were in the "loges restaurant" category, at a cost of \$1,400 each.
- We have not been able to ascertain who benefited from the use of these tickets. Correspondence between Groupaction and GPFI indicated that up to 336 of the 690 tickets may have been for use by GOC employees or representatives.

10.6

Financial Impact of Advertising and SPS Contracts on Results of Groupaction

10.6.1 Level of Business Prior to Advertising and SPS Contracts

From 1982 to 1994, Groupaction's clients were from both the private and public sectors, including the Québec provincial government. The level of business grew steadily over the years, as shown in the following Table:

Table 72: Groupaction Marketing - Annual Revenues 1984-1994



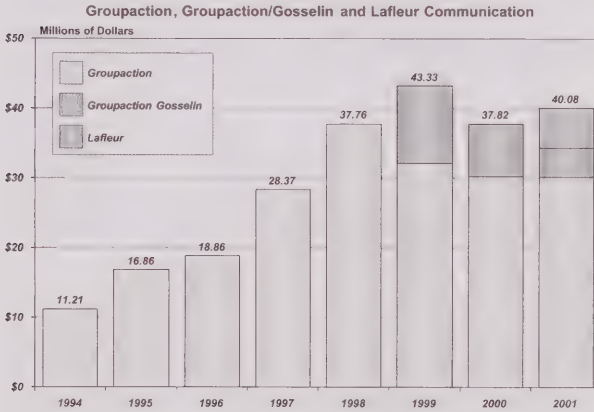
We were not able to establish a summary of revenues by customer for this period as the information was not available. We have not located any information that would lead us to believe that Groupaction received contracts from the GOC during this period.

During this same period the net income of Groupaction grew from \$17,045 in 1984 to \$314,078 in 1994.

## 10.6.2 Impact on Revenues

Groupaction's revenue increased significantly after it started receiving contracts from the GOC; from \$11.2 million in revenue in 1994, prior to GOC contracts awarded to Groupaction, to well above \$40 million, after the purchase(s) of Gosselin Communication and Lafleur Communication, as shown in the following Table:

**Table 73: Groupaction Marketing Annual Revenues**



Based on Groupaction's Adtraq accounting system, which does not include Groupaction/Gosselin and Lafleur Communication, Groupaction generated \$51.99 million in revenues from the GOC from 1996 to 2002, representing 28% of Groupaction's revenues recorded in the accounting system for this period.

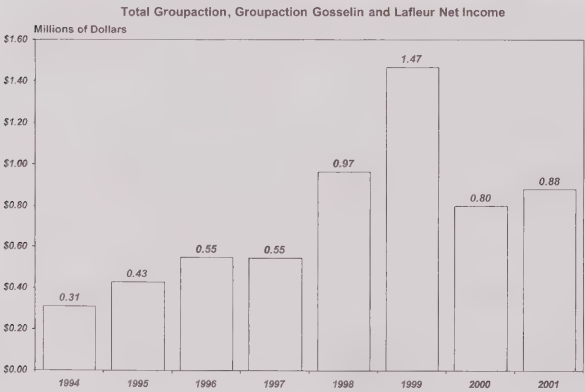
10.6.3 Impact on Net Income

The net income of Groupaction continued to increase from 1994 to 2001, as demonstrated in the following Table:

Table 74: Groupaction Marketing, Groupaction/Gosselin and Lafleur Communication Net Income for the Years Ended 1994 to 2001

Year	Groupaction Marketing	Groupaction/Gosselin	Lafleur Communication	Total
1994	\$314,078	-	-	\$314,078
1995	431,155	-	-	431,155
1996	548,823	-	-	548,823
1997	544,700	-	-	544,700
1998	964,864	-	-	964,864
1999	891,294	577,451	-	1,468,745
2000	887,927	(91,144)	-	796,783
2001	1,208,557	(292,649)	(36,686)	879,222
Total	\$5,791,398	\$193,658	(\$36,686)	\$5,948,370

Table 74a - Net Income of Selected Communication Agencies



Due to the mixture of clients, it is not possible to separate the profits generated from the GOC contracts from the overall results.

## 10.7

## Notable Uses of Funds by Groupaction

## 10.7.1 Salaries and Dividends

**Salaries**

Based on their personal tax returns or T4 slips, Mr. J. Brault and Ms Joane Archambault received from Groupaction a total of \$3.9 million in salaries between 1992 and 2001, as detailed in the following Table.

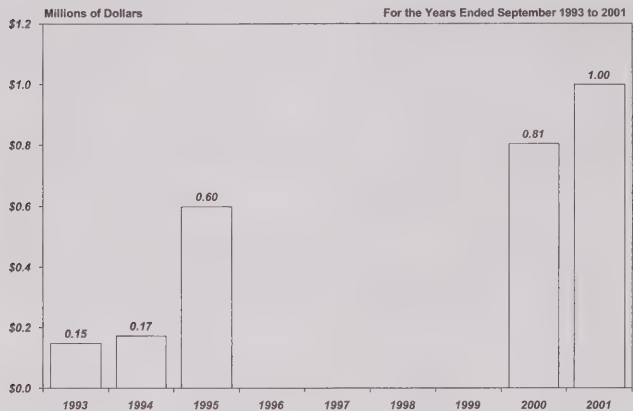
Table 75: Salaries Paid by Groupaction to Mr. Jean Brault and Ms Joane Archambault from 1992 to 2001

Year	Mr. Jean Brault	Ms Joane Archambault	Total
1992	\$156,934	\$33,995	\$190,929
1993	167,428	36,500	203,928
1994	147,869	37,667	185,536
1995	193,993	n/a	193,993
1996	247,596	46,899	294,495
1997	262,705	48,120	310,825
1998	431,255	56,136	487,391
1999	636,690	69,641	706,331
2000	428,748	77,990	506,738
2001	<u>765,765</u>	<u>60,173</u>	<u>825,938</u>
<b>Total</b>	<b><u>\$3,438,983</u></b>	<b><u>\$467,121</u></b>	<b><u>\$3,906,104</u></b>

**Dividends**

The accumulated profits of Groupaction were also distributed to its shareholders by way of dividends. During the years ended September 30, 1993 and 2001, \$2.7 million was paid in dividends, as follows:

Table 75a - Groupaction Marketing - Dividends Paid



10.7.2 Political Contributions

**Contributions to the Liberal Party of Canada - \$170,854**

Based on the documents available, Groupaction and related companies paid \$170,854 in political contributions to the Liberal Party of Canada from 1993 to 2002. The contributions were paid by Groupaction (\$136,654), Alléluia (\$29,200) and Impact Splash (\$5,000).

The following Table summarizes the political contributions by year by company and is detailed in Exhibit C-298, pages 2 to 4:



**Table 76: Groupaction - Political Contributions to the Liberal Party of Canada For 1993 to 2002**

Year	Groupaction	Alléluia Design	Impact Splash	Total
1993	\$455	-	-	\$455
1994	4,399	-	-	4,399
1995	-	-	-	-
1996	8,100	-	-	8,100
1997	59,300	-	-	59,300
1998	16,400	\$5,000	-	21,400
1999	40,400	15,000	\$5,000	60,400
2000	6,400	9,200	-	15,600
2001	1,200	-	-	1,200
2002	-	-	-	-
<b>Total</b>	<b><u>\$136,654</u></b>	<b><u>\$29,200</u></b>	<b><u>\$5,000</u></b>	<b><u>\$170,854</u></b>

### Other Payments Purportedly Made for Political Purposes - \$1.76 million

In addition to the political contributions to the Liberal Party of Canada identified in Table 76 of this report, other amounts were paid in a number of different manners and are purportedly related to political parties or political contributions. Table 77 below summarizes these other payments, purportedly related to political parties or political contributions.

**Table 77: Groupaction Marketing - Payments Suggested by Brault to be for Political Purposes**

	Payee or Type of Payment	Amount
1.	9004-8612 Québec Inc. (Comsar)	\$812,065
2.	PluriDesign Canada	430,370
3.	Investissement Alain Renaud	153,481
4.	John Welch	84,500
5.	Commando Communication	70,000
6.	Groupe Everest	50,000
7.	Le Groupe Gosselin et Associés	42,856
8.	Productions Caméo	39,850
9.	Richard Boudreault via Harel Drouin & Associés	24,975
10.	Gestions Richard B. Boudreault	14,790
11.	Club de Golf de Verchères	14,100
12.	Restaurant La Tarentella	8,282
13.	Georges Farrah	6,000
14.	Au Printemps Gourmet	5,168
15.	Gabriel ("Gaby") Chrétien	4,000
16.	Business organizations fundraisers attended by Ministers	3,150
17.	Cash payments	<u>unknown</u>
<b>Total</b>		<b><u>\$1,763,587</u></b>

Schedule 21 to this report provides more detail on the nature of these transactions.

As noted in Schedule 21 the amount paid to 9004-8612 Québec Inc. and Investissement Alain Renaud were for his lobbying services and to finance his efforts on behalf of the Liberal Party of Canada. Further, as noted in Schedule 21, Mr. J. Brault indicated that he made a number of cash payments or contributions to the Liberal Party of Canada (Québec) through Mr. Alain Renaud, Mr. Benoît Corbeil, Mr. Jacques Corriveau and/or Mr. Giuseppe (Joe) Morselli. We have identified, as noted in Schedule 22, various Groupaction cheques totaling \$406,514, which may have provided Mr. J. Brault with the opportunity to obtain cash amounts.

### **Contributions to the Parti Québécois - \$21,000**

We have identified \$21,000 in payments to employees of Groupaction (seven payments of \$3,000 each). Mr. J. Brault and Mr. Bernard Michaud have indicated, in their testimony to the COI, that these payments were used to fund matching payments of \$3,000 to the Parti Québécois by the employees.

#### **10.7.3 Payments to Mr. Guité and Oro Communication**

Groupaction paid \$127,731 to Oro Communication between October 1999 and February 2002 (Exhibit P-375, p.40). According to the supporting documents, these payments were made for the services of Mr. Guité for his work regarding potential acquisitions and acquirers for Groupaction.

In addition, Société Immobilière Alexsim Inc., controlled by Mr. J. Brault, paid \$25,000 to Mr. Guité on April 19, 2001 (Exhibit C-299 p.39).

Mr. J. Brault also paid \$35,000 to Mr. Guité for the purchase of a car.

## 10.8

## Scope Limitations

The following documentation was requested but not available for our review:

1. The complete files for all SPS contracts covering the GOC's 1996-97 to 2001-02 fiscal years; we were provided with the files, however, these files do not appear to be complete. As an example, there was a letter signed by Guité on July 3, 1999 that authorized Groupaction to destroy documents related to the visibility provided by Groupe Polygone and Expour for SPS contracts for the 1997-98 and 1998-99 GOC fiscal years (Exhibit C-296 p.83).
2. Copies of cancelled cheques for all of the Jean Brault companies. We were provided with access to certain cheques, however it appears that the documents were not complete.
3. Financial statement of Groupaction Marketing for the year ended September 30, 2002 and 2003.
4. Financial statements of 348833I Canada Inc. from 1998 to 2003.
5. Financial statements of 9054-0337 Québec Inc. from 1997 to 2003.
6. Financial statements of Solution - Ventes & Marketing Inc. from 1998 to 2003.
7. Financial statements of 3703096 Canada Inc. from 2000 to 2003.
8. Bank accounts of Jean Brault and Joane Archambault from 1994 to 2003, and accompanying cancelled cheques and deposit books.
9. Personal income tax return for Joane Archambault for the year ended December 31, 1995.



## II

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### SECTION ELEVEN

# DETAILED FINDINGS— GROUPE POLYGONE AND EXPOUR

## II.1

### Business Background

Expour Inc., Expour 2000 Inc. (jointly referred to as "Expour") and Groupe Polygone are owned by Mr. L. Lemay.

Expour organizes expositions while Groupe Polygone publishes magazines and other periodicals.

II.2

Level of Business

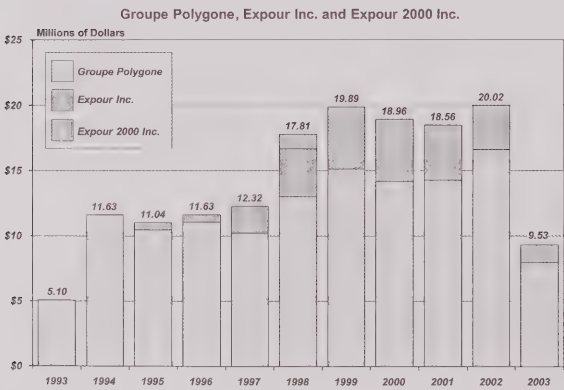
II.2.1 Revenues Generated by Groupe Polygone and Expour

The following table provides a summary of revenues generated by Groupe Polygone and Expour from 1993 to 2003. The receipt of SPS funds began in 1997 for Expour and in 1998 for Groupe Polygone.

Table 78: Groupe Polygone, Expour and Expour 2000  
Annual Revenues for the Years Ended 1993 to 2003

Year	Groupe Polygone	Expour Inc.	Expour 2000 Inc.	Total
1993	\$5,096,532	-	-	\$5,096,532
1994	11,632,800	-	-	11,632,800
1995	10,515,875	519,322	-	11,035,197
1996	11,123,887	506,333	-	11,630,220
1997	10,269,335	2,046,748	-	12,316,083
1998	13,043,749	3,658,782	1,107,997	17,810,528
1999	15,146,991	-	4,738,480	19,885,471
2000	14,201,103	-	4,753,832	18,954,935
2001	14,299,036	-	4,218,063	18,517,099
2002	16,664,745	-	3,356,509	20,021,254
2003	8,206,444	-	1,322,990	9,529,434
Total	<u>\$130,200,497</u>	<u>\$6,731,185</u>	<u>\$19,497,871</u>	<u>\$156,429,553</u>

Table 78a - Annual Revenues of Selected Communication Agencies -  
1993 to 2003



## 11.3

## Events and Amounts Sponsored by GOC

Expour received its first sponsorship from the GOC for the 1997 Salon National du Grand Air de Montréal, in the amount of \$450,000.

During 1996-97 to 2001-02 GOC fiscal years, Groupe Polygone and Expour received \$36.7 million in sponsorship and related production costs from the GOC via communication agencies, as summarized in Table 79 and detailed at Exhibit P-326, page 4:

Table 79: Groupe Polygone, Expour and Expour 2000  
GOC SPS Funds Received for the  
1996-97 to 2001-02 GOC Fiscal Years

Year	Groupe Polygone	Expour & Expour 2000	Production Costs	Total
1996-97	-	\$450,000	-	\$450,000
1997-98	\$3,167,580	1,236,000	-	4,403,580
1998-99	5,498,965	2,546,550	-	8,045,515
1999-00	4,858,022	2,954,780	807,500	8,620,302
2000-01	7,896,000	2,362,500	600,000	10,858,500
2001-02	2,905,500	1,400,000	-	4,305,500
<b>Total</b>	<u>\$24,326,067</u>	<u>\$10,949,830</u>	<u>\$1,407,500</u>	<u>\$36,683,397</u>

This Table does not include \$2.5 million in SPS that was approved but not paid to Groupe Polygone and Expour by the GOC for various events in 2001-2002.

A chart summarizing the flow of funds associated with the Expour and Groupe Polygone sponsorship events is presented as Schedule 23 of this report.

In addition, Groupe Polygone received \$1.9 million from Armada related to an advertising contract for the CIO. Inclusive of this amount, Groupe Polygone and Expour received a total of \$38.6 million from GOC, SPS and advertising contracts.

II.4

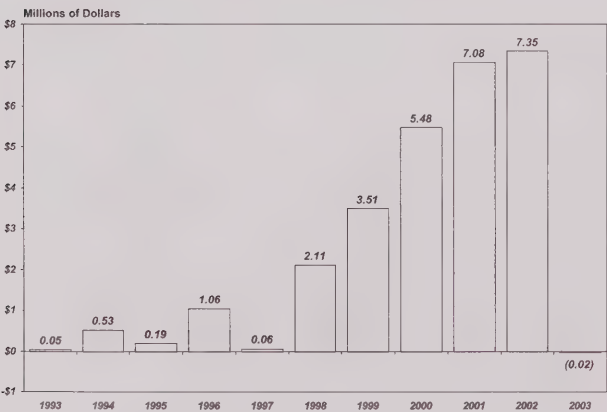
Financial Impact of GOC Sponsorship on Financial Results

The following chart provides a summary of the earnings before income taxes generated by Groupe Polygone and Expour from 1993 to 2003.

Table 80: Groupe Polygone, Expour and Expour 2000  
Earnings Before Income Taxes for the Years Ended 1993 to 2003

Year	Groupe Polygone	Expour Inc.	Expour 2000 Inc.	Total
1993	\$46,033	-	-	\$46,033
1994	531,154	-	-	531,154
1995	189,135	3,664	-	192,799
1996	981,941	77,417	-	1,059,358
1997	150,603	(91,548)	-	59,055
1998	1,780,945	57,165	273,213	2,111,323
1999	2,852,456	-	652,421	3,504,877
2000	4,796,593	-	683,331	5,479,924
2001	6,422,719	-	659,480	7,082,199
2002	7,316,508	-	31,847	7,348,355
2003	(42,772)	-	22,034	(20,738)
Total	\$25,025,315	\$46,698	\$2,322,326	\$27,394,339

Table 80a - Earnings Before Income Taxes -  
Groupe Polygone, Expour and Expour 2000





## II.5

### Notable Uses of Funds

#### II.5.1 Dividends

From 1998 to 2000 Groupe Polygone paid \$12.6 million in dividends to its shareholder, a company controlled by Mr. L. Lemay (\$5,240,000 in 1998, \$5,150,000 in 1999 and \$2,250,000 in 2000). These funds were co-mingled with other existing amounts in Mr. L. Lemay's primary investment company. Mr. L. Lemay's investments were primarily in marketable securities and in real estate.

#### II.5.2 Payments to PluriDesign Canada

Groupe Polygone and Expour have paid \$5.8 million to PluriDesign Canada, a company owned by Mr. J. Corriveau, as detailed in Exhibits P-322(A) and P-322(B).

Originally Mr. J. Corriveau was retained by Mr. L. Lemay to help with the concept and design of the first Salon National du Grand Air de Montréal. For this event, Mr. J. Corriveau was paid \$108,000 in professional fees for his services, based on the invoices produced as Exhibit P-338.

Later invoices issued by PluriDesign provide descriptions for specific work based on professional services contracts prepared by Mr. J. Corriveau. Also, the invoices are mostly associated with the salon events, an area where Mr. J. Corriveau had originally performed some work for Mr. L. Lemay. No invoices were issued by Mr. J. Corriveau in relation to the radio capsules.

The invoices issued by PluriDesign indicate Mr. J. Corriveau invoiced Expour fees totaling \$136,500 for the cancelled Salon in Québec City and \$241,000 for the cancelled Salon International de la Machinerie Agricole. In addition, PluriDesign also invoiced Expour \$1,015,600 for salons held in Sherbrooke and Trois-Rivières. Expour was not the promoter of these events and purchased visibility at those salons for \$100,000.

The \$5.8 million paid by Mr. L. Lemay's companies to PluriDesign Canada represents 15.9% of the \$36.7 million in sponsorship funds received by Mr. L. Lemay's companies from the GOC.

#### 11.5.3 Payments to Jean Brault Companies

Mr. L. Lemay's companies have paid \$2.1 million to Mr. J. Brault's companies, as summarized in Schedule 20 and on the flow of funds chart presented in Section 5 of this report.

#### 11.5.4 Political Contributions

Mr. L. Lemay's companies have contributed \$23,361 to the Liberal Party of Canada, as detailed at Exhibit P-328(B) pages 560 to 568.

### 11.6

#### Scope Limitations

The following documentation was requested but not available for our review:.

1. Groupe Polygone bank accounts, cancelled cheques and deposit books from April 1997 to March 2000.
2. Groupe Polygone general ledger for the 1998 to 2000 year-ends.
3. Groupe Polygone supplier invoices for the 1998 to 2000 year-ends.
4. Expour Inc. bank accounts, cancelled cheques and deposit books from April 1996 to March 1998.
5. Expour Inc. general ledger for the 1997 and 1998 year-ends.
6. Expour Inc. supplier invoices for the 1997 and 1998 year-ends.
7. Expour 2000 Inc. supplier invoices from April 1998 to January 1999.

Luc Lemay has indicated the above-noted documentation no longer exists.

## SECTION TWELVE

## DETAILED FINDINGS— PLURIDESIGN CANADA INC.

### 12.1

#### Business Background

PluriDesign Canada Inc. ("PluriDesign") is owned by Mr. J. Corriveau through Jacques Corriveau Designer Inc. (an investment company) and was in the business of graphic design and related services.

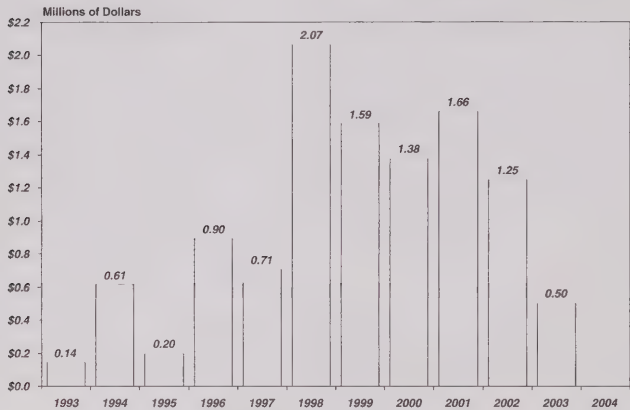
### 12.2

#### Level of Business

##### 12.2.1 Annual Revenues

The following Table provides a historical summary of revenues generated by PluriDesign.

Table 81 - Annual Revenues - PluriDesign Canada Inc.

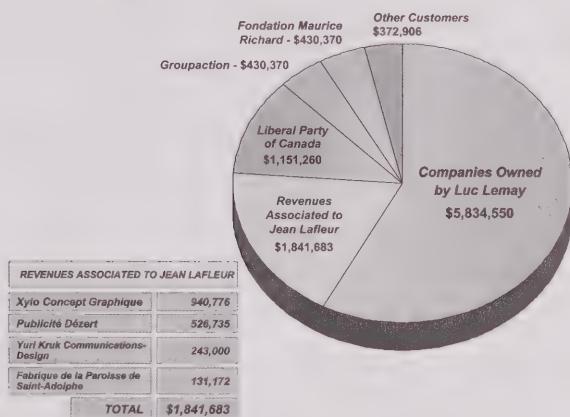


The revenue increase in 1998 is partly due to the work by Mr. J. Corriveau and PluriDesign on the federal general elections of 1997. For the year ended February 28, 1998, PluriDesign generated \$869,175 in revenues from the Liberal Party of Canada (Exhibit P-332 p. 211). Based on a review of PluriDesign's records, no payments were received for the 2000 general election from the Liberal Party of Canada or its electoral candidates for any work that may have been undertaken by Mr. J. Corriveau.

12.2.2 Revenues by Customers

Based on PluriDesign's customer invoices and invoice registers for the years ended February 1996 to 2004, its main customers, as detailed in P-332 page 211, were as follows:

Table 81a - PluriDesign Canada Inc. - Revenues By Customers - 1996 to 2004



The revenues associated with Mr. J. Lafleur relate mostly to sub-contracts given to PluriDesign by Xylo Concept Graphique (owned by Mr. Pierre Davidson), Publicité Désert (owned by Mr. Éric Lafleur) and Yuri Kruk Communications-Design (owned by Mr. Yuri Kruk). Each of these companies were direct sub-contractors of Lafleur Communication. The revenues received from La Fabrique de la Paroisse de Saint-Adolphe are related to the renovation of a church financed personally by Mr. J. Lafleur.

The available documentation does not indicate what services, if any, were provided by PluriDesign to Groupaction for the \$430,370 it received from Groupaction.

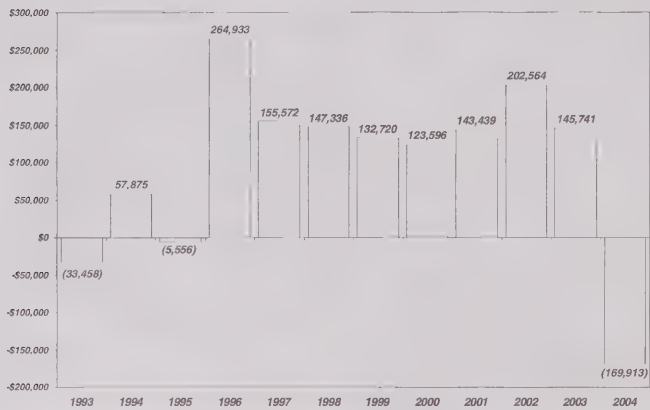
## 12.3

### Financial Impact of GOC Sponsorship on Financial Results

#### 12.3.1 PluriDesign Canada

The following table provides an historical summary of the net earnings generated by PluriDesign, totaling \$1.1 million. In additions to these net earnings, Mr. J. Corriveau received \$4.4 million in salaries and bonuses from 1995 to 2003, as detailed in Section 12.4.1 of this report.

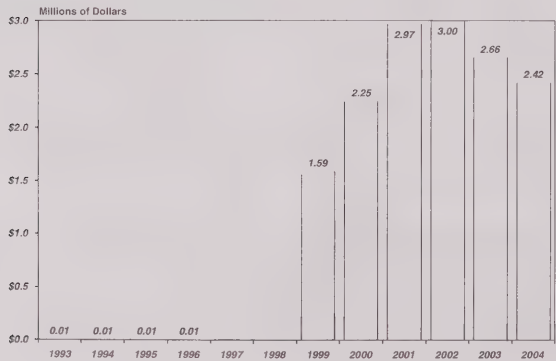
Table 82 - PluriDesign Canada Inc. - Net Earnings From 1993 to 2004



12.3.2 Jacques Corriveau Designer Inc.

The following table provides an historical summary of the total assets of Jacques Corriveau Designer Inc. From 1993 to 1998 the company was inactive with virtually no assets. The increase in assets starting in 1999 is a result of the receipt of dividends from PluriDesign (\$1,085,000), other advances from PluriDesign made from available cash flow, and the re-investment of bonuses paid by PluriDesign to Mr. J. Corriveau.

Table 83 - Total Assets - Jacques Corriveau Designer Inc.



As at February 28, 2004, the assets of Jacques Corriveau Designer Inc. were made up of cash (\$1,051,703), marketable securities (\$1,364,871) and other assets (\$4,635).

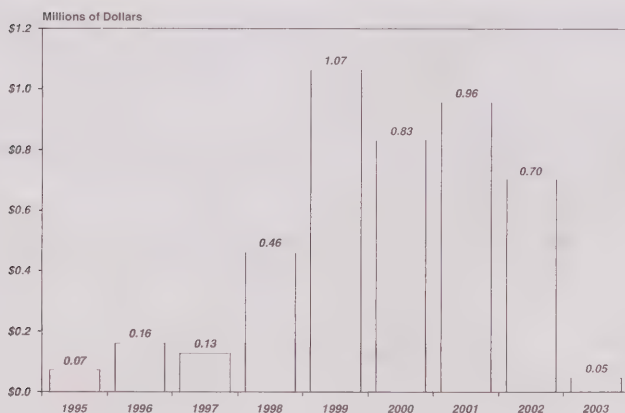
## 12.4

### Notable Uses of Funds by Pluridesign Canada

#### 12.4.1 Salaries and Bonuses to Mr. Jacques Corriveau

According to Mr. J. Corriveau's personal income tax returns, he received \$4.4 million in salaries and bonuses from PluriDesign from 1995 to 2003, as summarized in Table 84 and detailed at Exhibit P-332, page 218:

Table 84 - Employment Income From PluriDesign - Jacques Corriveau



Based on the information reviewed, Mr. J. Corriveau paid himself a yearly salary of approximately \$60,000 and received the balance of his remuneration by way of bonuses. \$1.8 million of the funds, representing approximately net after tax \$2.0 million arising from bonuses, were re-invested by Mr. J. Corriveau in Jacques Corriveau Designer Inc., his investment company. The balance of the net after tax bonuses of approximately \$200,000 was redeposited in PluriDesign and later transferred to Jacques Corriveau Designer Inc.

12.4.2 Dividends

Of the \$1,164,849 in net earnings generated by PluriDesign (i.e. profits left after payment of salaries and bonus to Mr. J. Corriveau), \$1,085,000 was paid to Jacques Corriveau Designer Inc. by way of dividends (\$600,000 in 1999, \$160,000 in 2000, \$125,000 in 2001 and \$200,000 in 2002).

12.4.3 Political Contributions

Mr. J. Corriveau, his wife and the companies he owns have contributed \$53,189 to the Liberal Party of Canada, as detailed at Exhibit P-332 pages 220 to 256.

12.4.4 Production Costs

PluriDesign incurred \$2.8 million in production costs for the years ended February 28, 1993 to 2004, as detailed in Exhibit P-332, page 94.

Based on the analysis of production costs for the years ended February 28, 1998 to 2003 presented at Exhibit P-332 page 213, PluriDesign's most important sub-contractors, by value, are as follows:

Table 85: PluriDesign Canada Inc. Significant Subcontracts,  
by Value, 1998 to 2004

Sub-Contractor Name	Amount
Quad	\$303,233
Mirabau	149,358
Super Impression	140,238
Imprimerie Production	85,856
Interpôles	74,300
Grafix Studio	71,499
Le Groupe Gosselin et Associés	55,200
Impression Arts Ltd	53,203
Matériaux Pont Masson	52,233
Sérigraphie 2000	51,594
MP Photo Reproduction	49,997



## 12.5

## Scope Limitations

The following documentation was requested but not available for our review:

1. Bank accounts of Jacques Corriveau from 1994 to August 1999.
2. Cancelled cheques for the bank accounts of Jacques Corriveau from 1994 to 2003.
3. Supplier invoices of PluriDesign Canada from 1994 to 2003.
4. Customer invoices of PluriDesign Canada from 1994 to 2003. The customer invoices provided to us were not complete. In particular, we note a number of invoices issued to Publicité Désert and Xylo Concept Graphique were missing.



## SECTION THIRTEEN

**DETAILED FINDINGS—  
GROUPE EVEREST****13.1****Business Background****13.1.1 Groupe Everest C.M.-P.C.R. Inc.**

Groupe Everest C.M.-P.C.R. Inc. ("Groupe Everest") was established on March 26, 1985. Groupe Everest, was a holding company for the various entities that operated under the Groupe Everest umbrella of companies ("Groupe Everest Companies") which provided communication services to the GOC prior to and during the SPS period as well as other private and public clients. Refer to Exhibit P-340(B) for corporate structure and ownership.

Groupe Everest's various investments in subsidiaries, satellite companies and Interpublic GRP Inc. for the period 1993 to 2003, are detailed in Schedule 24 attached to this report.

### 13.1.2 Groupe Everest Companies

The Groupe Everest Companies' operating structure is described in detail in exhibits P-340(A) and summarized in Table 86. The Groupe Everest Companies had approximately 200 employees during the SPS period.

Table 86: Summary of Operations of the Groupe Everest Companies

Company	Date Established	Principal Operations	Notes
Everest Commandites (G.E.C.M.) Inc.	February 1, 1985	Sponsorship/Promotions	Formerly Everest Promotion (G.E.C.M.) Inc.
Everest Estrie Publicité (G.E.C.M.) Inc.	November 1, 1976	Communication and Marketing Services for the Eastern Township Area	
Everest Relations Publiques (G.E.C.M.) Inc.	June 15, 1987	Public Relations	
Lambert Multimedia Inc.	October 31, 1995	Audio visual production services	
Sensas (G.E.C.M.) Inc.	August 28, 1998	Production services and sale of promotional items	
Everest Versant Ouest Inc.	August 27, 1996	Communication and Marketing Services in Ottawa	Formerly 3289796 Canada Inc.
Everest Publicité (G.E.C.M.) Inc.	February 13, 1980	Communication services	Merged with Everest Publicité Promotions (G.E.C.M.) Inc.)
Everest Publicité Promotions (G.E.C.M.) Inc.	August 10, 1984	Advertising and Promotion services	Formerly 176698 Canada Inc. also known as Ascension Creation. Merged with Everest Publicité (G.E.C.M.) Inc. in 1999
Média/I.D.A. Vision Inc.	August 1, 1997	Agency of Record effective April 1, 1998	Formerly 3397823 Canada Inc.
Mediavision W.V.P.	September 21, 1998	Management, planning, negotiations and purchase of advertising, mainly for Média/I.D.A. Vision	

The complex operating structure and incomplete financial records made it difficult to determine who received funds from the SPS contracts, which companies were party to the contracts with PWGSC and the ultimate cost to the Groupe Everest Companies for executing the contracts. A review of the available financial information of the companies shows that the Groupe Everest Companies were involved in many intercompany transactions.

On February 14, 2000, Draft Worldwide Canada Inc. ("Draft") purchased all the issued and outstanding shares of five subsidiaries of Groupe Everest:<sup>1,2</sup> Everest Commandites (G.E.C.M.) Inc. ("Everest Commandites"), Lambert Multimedia Inc., Everest Relations Publiques (G.E.C.M.) Inc. ("Everest Relations Publiques"), Sensas (G.E.C.M.) Inc. ("Sensas"), and Everest Estrie Publicité (G.E.C.M.) Inc. ("Everest Estrie"). Draft is part of the Interpublic Group of Companies ("IPG"), a US public company.

Subsequent to the transaction with Draft, Groupe Everest continued to obtain contracts from PWGSC related to the SPS. The subsidiaries owned by Draft together with the companies that remained under the Groupe Everest umbrella continued to service these contracts in the same manner as prior to the transaction.

On December 27, 2002, Draft purchased the remaining operating subsidiaries of Groupe Everest.

The purchase price paid by Draft to various Sellers<sup>3</sup> was paid in cash and shares as follows:

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<sup>1</sup> Refer to Exhibit P-340(A) Annexe III for a summary of the transactions and P-362 for the various related Agreements between the purchaser and sellers.

<sup>2</sup> Just prior to the transaction, these subsidiaries had been transferred into 3698866 Canada Inc., a wholly owned subsidiary of Groupe Everest.

<sup>3</sup> The Sellers are defined as Groupe Everest C.M.-P.C.R. Inc., Ms Diane Deslauriers, Mr. Charles Choquette and 9086-8225 Québec Inc. We were not provided the details of how the cash was distributed between the Sellers.

Table 87: Consideration Paid by Draft  
(000s)

	Cash	Value of Shares	Total
December 15, 2000	7,000	-	7,000
February 27, 2001	16,045	1,783	17,828
June 13, 2002	<u>24,750</u>	<u>2,750</u>	<u>27,500</u>
<b>Total</b>	<u>\$47,795</u>	<u>\$4,533</u>	<u>\$52,323</u>

Details of the transaction are in Exhibit P-362.

13.1.3 Caliméro Partenariat Inc.

In addition to the Groupe Everest Companies, Ms Diane Deslauriers, Mr. Claude Boulay's wife, owned Caliméro Partenariat Inc. ("Caliméro"). This company sought out and managed sponsorship events for Everest Commandites for both private and public clients. This company was not part of the Groupe Everest Companies.

On February 14, 2000, Draft purchased all the issued and outstanding shares of Caliméro.

Ms D. Deslauriers was the sole employee of Caliméro and she worked with employees of Everest Commandites to manage sponsorship events, as necessary.

13.1.4 Groupe Everest's First Dealings with the GOC

Prior to the Liberal Party of Canada taking office in 1993, Groupe Everest generated advertising revenues from Canada Communication Group of \$1.1 million from the GOC fiscal years 1990-91 to 1992-93.

## 13.2

## GOC Selection Processes

## 13.2.1 Advertising Selection Process

Table 88 identifies the agency selection competitions where Groupe Everest was the winning agency. A full listing of all known selection competition has been compiled and produced as Exhibit P-416.

Table 88: Advertising Agency Competitions

Date of Final Report	Department	Winning Agency or Consortium
April 25, 1994	Bank of Canada – Savings Bonds	Consortium of Everest and Ginkgo
February 8, 1995	Heritage Canada	Groupe Everest; BCP Canada; Compass Communications; Palmer Jarvis Communications; Vickers and Benson
August 8, 1995	Finance – Canada Savings Bonds	Consortium of Vickers & Benson and Groupe Everest
September 1, 2000	Canada Information Office	Allard and Johnson Communications Inc.; Armada; Groupe Everest; Ensemble Consortium (made up of Groupaction, Vickers and Benson, Focus, formerly known as Palmer Jarvis, Compass Communications and Coffin)
February 6, 2001	Heritage Canada and Parks Canada	Groupe Everest and a consortium of Publicite Martin and Scott Thornley
May 11, 2001	PWGSC	Groupe Everest; Gosselin; Lafleur; Groupaction, TNC Multicom; Compass; Armada; Bristol; Coffin

## 13.2.2 Heritage Canada 1995

In January 1995, Groupe Everest entered the advertising competition for Heritage Canada. The agency search questionnaire prepared by Groupe Everest, dated January 12, 1995,<sup>1</sup> noted that the total value of Groupe Everest's billing for 1993 and 1994 was \$32.0 and \$33.5 million respectively. However, Groupe Everest's consolidated financial statements report consolidated revenues of only \$7.6 million and \$6.4 million respectively.

<sup>1</sup> Addendum to Exhibit P-19.

### 13.2.3 SPS Selection Process

Subsequent to the advertising competition for Heritage Canada, the agencies that were selected were added to the qualified suppliers list for communication and advertising contracts on behalf of PWGSC/APORS by Mr. J.C. Guité (refer to Exhibit P-19, Tab 20). Groupe Everest was one of the qualified suppliers on this list.

### 13.2.4 AOR: Média/I.D.A. Vision

On December 12, 1997, Groupe Everest, Paul Martel Inc. and Médiavision, an entity representing 3428265 Canada Inc. and I.D.A. Vision (3289796 Canada Inc.) made a presentation to the GOC in response to a request for tender to become the AOR for media purchases. On March 31, 1998, the GOC entered into a contract with Média/I.D.A. Vision (3397823 Canada Inc.), and Groupe Everest as guarantor, to provide AOR services to the GOC for advertising and sponsorship contracts. The term of the contract was from April 1, 1998 to March 31, 2003.

## 13.3

### Contracts with GOC

#### 13.3.1 SPS Contracts

Between 1994-95 and 2002-03 GOC fiscal years, the Groupe Everest Companies managed SPS contracts with a total value of \$67.7 million consisting of \$42.6 million in contracts with Groupe Everest and related companies, including \$25.6 million related to contracts for Attractions Canada and \$25.1 million of directions with Genesis Media or Média/I.D.A. Vision, as summarized in Table 89:



Table 89: Contracts Managed by Groupe Everest for GOC  
Fiscal Years 1994/95 to 2002/03

Fiscal Year	Contracts with Groupe Everest and Related Companies	Direction with Genesis Media or Média/I.D.A. Vision	Total
1994/1995	\$ 348,753	\$ 0	\$ 348,753
1995/1996	1,120,890	1,339,200	2,460,090
1996/1997	7,076,343	553,318	7,629,661
1997/1998	12,332,472	367,645	12,700,117
1998/1999	8,344,192	4,913,309	13,257,501
1999/2000	5,204,927	4,209,000	9,413,927
2000/2001	4,410,183	5,640,750	10,050,933
2001/2002	3,724,308	6,034,625	9,758,933
2002/2003	<u>35,851</u>	<u>2,012,500</u>	<u>2,048,351</u>
<b>Total</b>	<b><u>\$42,597,919</u></b>	<b><u>\$25,070,347</u></b>	<b><u>\$67,668,266</u></b>

For a detailed listing of the contracts awarded to the Groupe Everest Companies, refer to Exhibit P-346 pages 4 to 22.

### Attractions Canada

Attractions Canada was a partnership program between the GOC, private enterprises and the media<sup>1</sup>. Its purpose was to inform Canadians about Canadian attractions including historic sites, natural parks, museums, and similar attractions through the use of advertisements and promotions. Groupe Everest considered this an advertising program and the work was to be executed and invoiced primarily through Everest Publicité Promotions. Attractions Canada was a concept developed by Groupe Everest for the CIO and their proposal was accepted by the GOC.

Attractions Canada started in GOC fiscal year 1996-97. In total, there were thirteen contracts totaling \$25.6 million related to the program from the GOC fiscal years 1996-97 to 2001-02. In addition, in its final year, fiscal year 2002-03, an advertising contract was issued for \$3.5 million which was later revised down to \$2.25 million prior to being cancelled. The total amount of contracts awarded in respect to Attractions Canada was \$27.9 million.

<sup>1</sup> www.attractionscanada.com - Exhibit P-90C, page 99.

Over the period 1996-97 to 2002-03, the contracts generally did not specify the allocation of the funds between media placement, sponsorship and production costs. The actual terms of the various contracts noted that \$25.5 million was for production costs, and \$2.263 million was to be spent on media placement, \$56,718 was for sponsorship.

We have analyzed invoices for the years 1996-97 to 2000-01, in respect of contracts totaling \$22.1 million. Our analysis indicates that the amount invoiced in connection thereto is \$21.8 million which was invoiced by Groupe Everest companies as follows:

Table 90: Attractions Canada - Summary of Invoices  
(\$ millions)

	<b>Total</b>
Production Costs	12.3
Media Placement	8.1
Agency Commissions	<u>1.4</u>
<b>Total</b>	<u><b>\$21.8</b></u>

Refer to Exhibit P-347 pages 14 to 19 for details by contract. Of the \$12.3 million in production costs, \$6.2 was sub-contracted to third party suppliers and \$6.1 million was retained by the Groupe Everest Companies for professional fees, production costs and commissions as summarized below:

Table 91: Attractions Canada - Breakdown of Production Costs<sup>1</sup>  
(\$000's)

Description	Internal Costs <sup>2</sup>			Total Internal Costs	Total External Costs	Total Costs
	Professional Fees	Agency Commission	Production Costs			
Media related production	\$383.5	\$334.5	\$554.9	\$1,273.0	\$1,413.9	\$2,686.8
Fixed Fee – "Structure Permanente"	1,150.0	-	-	1,150.0	-	1,150.0
Galas	303.2	36.7	95.2	435.1	318.1	753.3
Website	0.4	62.3	258.8	321.5	137.3	458.8
Serdy Video – "Le Gout de Chez Nous"	60.2	141.2	-	201.4	800.0	1,001.4
Millenium Events	197.4	-	-	197.4	-	197.4
Contests	105.5	38.0	2.1	145.6	360.9	506.5
Promotional items	0.2	31.8	18.2	50.2	162.2	212.4
Logo	44.2	0.2	1.2	45.5	-	45.5
Other invoices	<u>1,170.8</u>	<u>218.4</u>	<u>950.7</u>	<u>2,339.9</u>	<u>2,979.1</u>	<u>5,319.0</u>
Total	<u>\$3,415.3</u>	<u>\$863.2</u>	<u>\$1,881.1</u>	<u>\$6,159.6</u>	<u>\$6,171.5</u>	<u>\$12,331.2</u>

### 13.3.2 Advertising Contracts

From 1995 to 2003, Groupe Everest acted as the communication agency for advertising contracts for various government departments totaling \$40.45 million, providing media planning and production services. For a complete list of the advertising contracts refer to Schedule IO.

In summary, the \$40.45 million was allocated in the contracts as follows:

<sup>1</sup> Source: Groupe Everest Companies' and supplier invoices where available.

<sup>2</sup> Costs billed by or subcontracted to one of the Groupe Everest Companies and there was no third party subcontractor invoice noted.

Table 92: Advertising Contract Breakdown  
(\$ millions)

	Total
Media Placement	15.11
Production	<u>25.34</u>
<b>Total</b>	<u><b>\$40.45<sup>1</sup></b></u>

13.4  
Management of Contracts

13.4.1 Special Programs and Sponsorship

Almost all of the SPS contracts were contracted by PWGSC with "Groupe Everest". The contracts were executed by companies operating within the Groupe Everest umbrella of companies mainly Everest Commandites, Everest Publicité and Everest Publicité Promotions.

The Groupe Everest Companies invoiced PWGSC or Média/ I.D.A. Vision on Groupe Everest letterhead with a notation at the bottom of the invoice with instructions as to which Groupe Everest company should be paid. The invoice and corresponding revenue would then be recorded in the Groupe Everest company to which payment was to be directed. In addition to the invoices issued by the Groupe Everest Companies, we noted six invoices totaling \$3.8 million before taxes, that were billed directly by Groupe Everest Inc. (i.e., Groupe Everest C.M.-P.C.R. Inc.) to PWGSC related to various Attractions Canada contracts. However, we note that these invoices were not recorded as revenues by Groupe Everest but rather by the subsidiary to which the work was subcontracted. These invoices are summarized in Schedule 25.

After certain subsidiaries of Groupe Everest were sold to Draft in February 2000, there was no change in the execution of the contracts; the contracts were still issued to "Groupe Everest" and continued to be executed by the

<sup>1</sup> The total and allocation on Exhibit P-346 are slightly different. The data presented in Table 92 is based on more recent information.

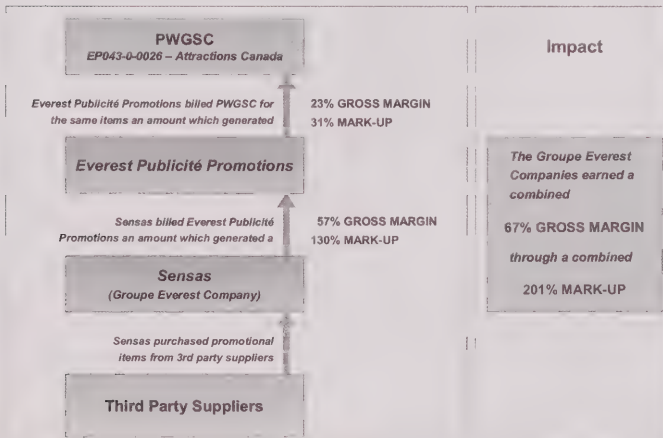
subsidiaries now owned by Draft, including Everest Commandites and the subsidiaries still owned by Groupe Everest. We note that Draft was not an agency selected by PWGSC.

### Inter-company Billings

In order to execute a sponsorship and production contract, Groupe Everest drew upon the expertise and services of its various companies to fulfill its contract requirements. Services provided to a related company were invoiced either at cost or with a mark-up. We noted several instances where the GOC was ultimately billed for amounts that generated mark-ups within each of Groupe Everest's related companies that had provided services, in addition to the 17.65% agency commission.

For instance, under contract EP043-0-0026 Everest Publicité Promotions issued invoices to PWGSC for promotional items purchased for Attractions Canada which were purchased by Sensas, a related company. Table 93 summarizes the transaction. Refer to Schedule 26 for a detailed analysis of this contract.

Table 93: Groupe Everest - Intercompany Billings and Mark-ups  
(EP043-0-0026)



Due to the complex nature of the Groupe Everest Companies' accounting systems and the lack of supporting documentation, we were unable to review and quantify all the instances where there were mark-ups charged to the GOC on inter-company billings.

Other Remuneration from Sponsorees

We reviewed six sponsorship events where the Groupe Everest Companies received "finder's fees" from the sponsoree in addition to the agency fee received from PWGSC. We also noted one instance where the sponsoree, Riopelle, paid a finder's fee directly to Caliméro. In total, the Groupe Everest Companies and Caliméro received \$0.6 million in finder's fees and agency commissions relating to the six contracts. Of this amount, the Groupe Everest Companies and Caliméro received finder's fees of \$341,750 or 16.5% of the sponsorship amount. Table 94 lists those six contracts and related fees and commissions.

Table 94: Summary Fees Paid to Everest and Caliméro  
(\$000's)

Event	Contract	PWGSC Sponsorship Amount	Communication Agency Commissions	Finder's Fee	AOR Commission	Total Fees Paid to Everest & Caliméro
Jeux du Québec	EN771-7-0016	220.0	26.4	37.0	-	63.40
Jeux du Québec	EP043-01-0115	150.0	18.0	30.0	4.50	52.50
Parc des îles	EN771-7-0016	500.0	60.0	100.0	-	160.00
Parc des îles	EN771-8-0010	625.0	75.0	93.75	18.75	187.50
Parc des îles	EP043-9-0047	500.0	60.0	75.0	15.00	150.00
Riopelle	EN771-8-0010	75.0	9.0	6.0	2.25	17.25
Total		<u>\$2,070.0</u>	<u>\$248.4</u>	<u>\$341.75</u>	<u>\$40.50</u>	<u>\$630.65</u>

Refer to Exhibits P-324, P-354, P-355 and P-357 for event details.

Caliméro was remunerated by the Groupe Everest Companies by way of commissions. Caliméro invoiced Everest Commandites 25% of the commission received by this company for finding the event. In addition, if Ms D. Deslauriers was involved in managing the event, Caliméro would invoice Groupe Everest another 25% of the agency commission from PWGSC.

### Time Charges for Ms D. Deslauriers

During our review of the Groupe Everest Companies' production invoices to PWGSC from the GOC fiscal years 1996-97 to 1999-2000, we noted that on certain invoices the Groupe Everest Companies charged professional fees for Ms D. Deslauriers. We note, however that Ms D. Deslauriers was not an employee of any of the Groupe Everest Companies over this period. In our production analysis, the contracts for which we noted these time charges are as follows:

Table 95: Ms D. Deslauriers Time Charges

Contract	Event	Total Hours
EN771-6-0169	325e Ville de Terrebonne	187.0
EN771-8-0010	Multi-events	354.5
EN771-8-0093	Challenge Automobile sur Glace du Canada	5.0
EP043-9-0040	CFL	146.0
EP043-9-0041	NHL	181.0
EP043-9-0042	Club des Marins	3.0
EP043-9-0043	Expos de Montréal	39.0
EP043-9-0044	Maximum Blues	15.0
EP043-9-0226	Championnat du Monde de Triathlon	5.5
<b>Total</b>		<u>936.0</u>

Further, in the documents available for our review, we note that Ms D. Deslauriers corresponded with sponsors as if she were a manager working for Everest Promotion's sponsorship division.

### Art Tellier Contract

On April 1, 1999 PWGSC issued contract EP043-9-0051 to Everest Estrie for \$461,827 of production costs relating to the supply of promotional items. Everest Estrie subcontracted the work to Communications Art Tellier Inc. ("Art Tellier")<sup>1</sup>. According to a purchase order dated April 16, 1999, Mr. Guité of PWGSC had approved a purchase order directly with Art Tellier. Art Tellier performed the work for the contract and billed Everest Estrie for \$390,000. Everest Estrie billed PWGSC \$68,835 (17.65%) in agency commissions related to the contract.

Based on the documentation provided to the COI, it appears that Everest Estrie earned their agency commissions of \$68,835 for preparing a purchase order to Art Tellier, billing PWGSC and paying Art Tellier for promotional items.

### Média/I.D.A. Vision Responsibilities as AOR for SPS Contracts

Média/I.D.A. Vision had one or two employees who were responsible for the management of the sponsorship files as an AOR. These employees did administrative verification for the receipt of funds from PWGSC and the issuance of cheques to agencies and sponsorees.

According to the contract between the GOC and Média/I.D.A. Vision dated March 31, 1998<sup>2</sup>, some of Média/I.D.A. Vision's obligations with reference to sponsorship were:

- "1. To monitor sponsorship events/activities according to agreements set by the Creative Advertising Agencies or Communication firms;
- 2. To ensure that Her Majesty receives value for the money; ...
- 8. ....To monitor the quality of services provided in respect to Sponsorship services."

<sup>1</sup> Art Tellier is a company owned by Benoit Renaud.

<sup>2</sup> Contract between the GOC and Média/I.D.A. Vision dated March 31, 1998, pages 15 and 16.



Based on the documentation provided to the COI, it appears that Média/I.D.A. Vision's employees did not:

- monitor the sponsorship events/according to the agreements;
- investigate whether the GOC received value for money; and
- monitor the quality of services provided in respect to Sponsorship services.

### 13.5

#### Financial Impact of Advertising and SPS Contracts on Results of Groupe Everest Companies

##### 13.5.1 Financial Scope Limitations

Tables 97 to 100 illustrate the trend in revenues and income for the Groupe Everest Companies for the period of 1995 to 2002. This information is based on the documents provided to the COI. We are unable to provide complete consolidated revenues and net income for the period under review, due to the following scope limitations:

- Groupe Everest did not prepare consolidated financial statements after the year ended December 31, 1999. In addition, we requested but were not provided with Groupe Everest's consolidated financial statements for the year ended August 31, 1999;
- We requested but were not provided with the internal financial accounting records (Adtraq) of all the Groupe Everest Companies for the period under review;
- We requested but were not provided with financial statements for Groupe Everest C.M. - P.C.R. Inc. for the year ended December 31, 2003; and
- We requested but did not have access to the Groupe Everest Companies' accountant's working papers for the period under review.

13.5.2 Revenues

From 1995 to 2002, Groupe Everest and its related companies had clients from the public and private sector. Table 96 summarizes Groupe Everest's combined revenues for the period 1995 to 2002 for the companies for which data was available. For the years 1995 to 1998, Kroll sourced the combined revenues from the consolidated financial statements of Groupe Everest. For the years 1999 to 2002, the combined revenues were prepared by Kroll utilizing the non-consolidated financial statements of Groupe Everest and the financial statements of the various operating companies eliminating the revenues from parties under common control, as per the related party information disclosed in the notes to these financial statements<sup>1</sup>.

Table 96: Groupe Everest Combined Revenues (\$000's)

Fiscal Year	Combined Revenues (Excl. Média/I.D.A. Vision)	Combined Revenues (Incl. Média/I.D.A. Vision)
1995	10,002	10,002
1996	17,372	17,372
1997	29,614	29,614
1998	24,855	47,887
1999	31,273	105,186
2000 <sup>2</sup>	51,417	153,163
2001	28,466	145,585
2002	13,233	114,841
<b>Total</b>	<b><u>\$206,232</u></b>	<b><u>\$623,650</u></b>

Table 97 summarizes Groupe Everest's revenues from the GOC. Based on the financial information provided to the COI, we have been unable to determine all the revenues received by Groupe Everest related to the GOC total contracts. The sponsorship revenues were derived from the Kroll analysis of invoices submitted by Groupe Everest and paid by the GOC and the list of SPS contracts compiled by Kroll. We have estimated the advertising revenues based on the assumption that 75% of the contracted amounts were spent<sup>3</sup>.

<sup>1</sup> For the 5 month period ended January 30, 2000, the revenues from parties under common control were not available and have not been eliminated above.

<sup>2</sup> Fiscal 2000 represents 16 months of revenue comprising the 5-month period ended January 31, 2000 and the 11-month period ended December 31, 2000.

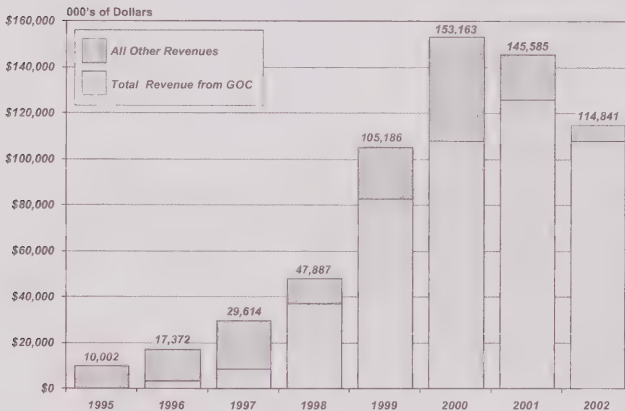
<sup>3</sup> Based on the results of the analysis performed in Section 7.3.2.

Table 97: Groupe Everest Revenues from GOC (1995-2002) (\$000's)

Fiscal Year	Advertising		Média/I.D.A. Vision		Total –GOC
	SPS	Production	Media Division <sup>1</sup>	Sponsorship Division <sup>1</sup>	
1995	348.8	263.8	-	-	612.6
1996	1,278.2	2,455.0	-	-	3,733.2
1997	7,147.6	1,568.7	-	-	8,716.3
1998	12,197.4	1,622.8	5,018.5	18,023.5	36,862.2
1999	7,614.4	1,395.2	45,515.0	28,569.0	83,093.6
2000	4,946.9	1,425.8	72,391.5	29,620.9	108,385.1
2001	4,355.2	3,610.7	90,795.2	27,734.7	126,495.8
2002	3,724.3	3,217.7	82,483.2	18,839.4	108,264.6
<b>Total</b>	<b>\$41,612.8</b>	<b>\$15,559.7</b>	<b>\$296,203.4</b>	<b>\$122,787.5</b>	<b>\$476,163.4</b>

Based on the accounting records available, the combined revenues are \$456 million.

Table 97a - Groupe Everest Companies - Revenue from GOC and Total Revenues



<sup>1</sup> Source: Média/I.D.A. Vision - Adtraq information. Based on Média/I.D.A. Vision's fiscal year, Exhibit P-346, page 145.

Groupe Everest's sales from the GOC could have been as high as 28% of total sales excluding revenues from Média/I.D.A. Vision and 76% including revenues from Média/I.D.A. Vision.

Revenues by Client

Refer to Exhibit P-346 pages 130 to 151 for summaries of revenue by client for the Groupe Everest Companies for the period 1995-2002.

Table 98 below summarizes for each of the Groupe Everest's Companies to which the majority of the SPS and advertising contracts were awarded, the revenues earned from the various departments within the Government of Canada<sup>1</sup> as a percentage of total sales<sup>2</sup> based on available information:

Table 98: Groupe Everest Sales to GOC

Group Everest Company	Sales to PWGSC and Communication Canada as % of Total Sales	Sales to all GOC Departments as % of Total Sales <sup>3</sup>
Everest Commandite	44.2%	47.2%
Everest Publicité Promotions	30.0%	39.0%
Everest Relations Publiques	5.9%	29.1%
Média/I. D. A. Vision	34.0%	100.0%

13.5.3 Gross Margins

Table 99 summarizes the combined gross margins for the Groupe Everest Companies as reported in their financial statements. Where there are related party purchases, these costs are included in the gross margin of the purchasing company.

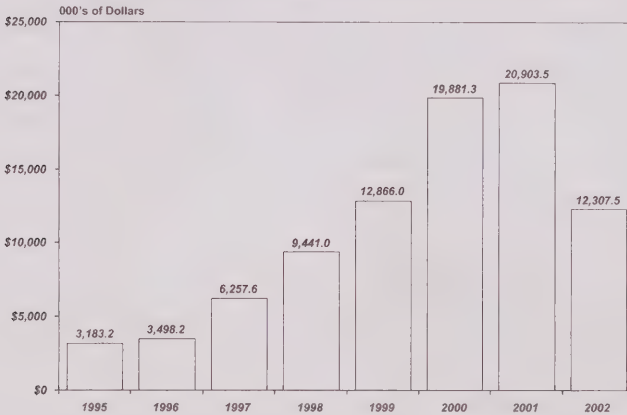
<sup>1</sup> Excludes sales to Crown Corporations.

<sup>2</sup> Information was not available for the other companies.

<sup>3</sup> Includes sales to PWGSC and Communication Canada.

Since consolidated financial statements were not available for the full period under review we have simply combined the financial statements for the results noted below. It is possible that consolidated financial statements would produce a different result. However, the trend in gross margins would likely remain unchanged.

**Table 99: Groupe Everest Companies - Gross Margins**



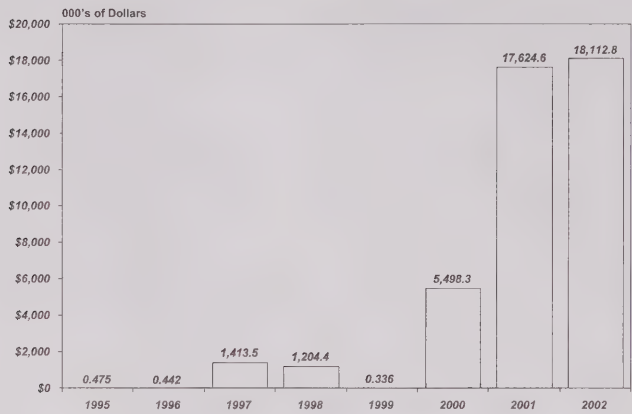
We have estimated that the gross margin earned by Groupe Everest from the GOC is approximately \$26 million. This number represents 28% of the total gross margin earned during the period from 1994-95 to 2001-02.

#### 13.5.4 Net Income

Table 100 summarizes the combined net income for the Groupe Everest Companies.

Since consolidated financial statements were not available for the full period under review we have simply combined the financial statements for the results noted below. It is possible that consolidated financial statements would produce a different result.

Table 100: Groupe Everest Companies - Net Income



Due to the wide mix of clients in the Groupe Everest Companies and their complex operating structure, it is difficult to separate the profits generated by the Groupe Everest Companies from the GOC contracts from the overall results.

13.6

Notable Uses of Funds by Groupe Everest

13.6.1 Salaries and Dividends

Salaries - Mr. C. Boulay and Ms D. Deslauriers

Based on the personal income tax returns provided to the COI, Mr. C. Boulay and Ms D. Deslauriers received salaries of \$4.4 million and \$105,793 respectively, over the period 1995 to 2003. Ms D. Deslauriers' personal income tax returns were not available for the four years 1996 to 1999.

Salaries - Other Shareholders of Groupe Everest

We reviewed the Groupe Everest and related companies salary registers that were provided to the COI in an attempt to determine the salaries paid to the other shareholders of Groupe Everest.

Based on our review of the information provided, salaries and bonuses paid from 1995 to 2002 to Jean Bernard Belisle, Jean-Pierre Toupin and Claude Lacroix totaled \$2.4 million.

## Dividends

From 1993 to 2003 Groupe Everest paid a total of \$31.2 million in dividends to its shareholders as follows:

Table 101: Dividends Paid by Groupe Everest  
(\$ 000s)

	Dividends	Capital Dividends	Total
1994	200	-	200
1995	300	-	300
1996	-	-	-
1997	503	-	503
1998	-	-	-
1999	-	-	-
2000	700	-	700
2001	2,950	-	2,950
2002	9,200	17,385	26,585
2003 <sup>1</sup>	n/a	n/a	n/a
<b>Total</b>	<b>\$13,853</b>	<b>\$17,385</b>	<b>\$31,238</b>

Over the same period, 1994 to 2003, I40638 Canada Inc., Mr. C. Boulay's holding company, received total dividends of \$25.5 million primarily from Groupe Everest.<sup>2</sup>

<sup>1</sup> Groupe Everest financial statements were not available for 2003.

<sup>2</sup> Source: I40638 Canada Inc. financial statements.

13.6.2 Political Contributions

The Groupe Everest Companies, its employees and shareholders made political contributions of \$194,832 from 1996 to 2003. Refer to Exhibit P-340(B), page 74 for details.

13.6.3 Transactions with Oro Communications Inc.

Sales to Oro

Oro Communications Inc. ("Oro") paid \$60,000 to Everest Estrie related to the following invoices:

Table 102: Sales to Oro

Invoice Date	Invoice #	Amount
October 29, 2001	14970	20,000
November 26, 2001	15092	20,000
December 20, 2001	15220	<u>20,000</u>
<b>Total</b>		<b><u>\$60,000</u></b>

We were only able to locate invoice #14970 which described the work performed as market research. The docket description for all three invoices was market research. No further documentation was provided to the COI by Groupe Everest related to this transaction.

Payments to Oro

In September 2000, Groupe Everest paid to Oro \$5,992. The invoice issued by Oro to Groupe Everest stated that the invoice was for four days of professional consultation.



## 13.7

## Scope Limitations

The following documentation was requested but not available for our review:

1. The consolidated financial statements for Groupe Everest C.M.-P.C.R. Inc. for the year ended August 31, 1999. In addition, consolidated financial statements were not prepared for fiscal years 2000 to 2003.
2. The non-consolidated financial statements for Gestion Opération Tibet Inc. (formerly Groupe Everest C.M.-P.C.R. Inc.) for the year ended December 31, 2003.
3. The complete contract files for all sponsorship contracts covering the GOC's fiscal years 1994/1995 to 2002/2003; we were provided with the contract files for the years 1998/1999 to 2002/2003—however, these files do not appear to be complete. According to Mr. C. Boulay, these files were given to Draft upon their purchase of the Groupe Everest Companies.
4. The financial statements for Caliméro Partenariat Inc. for the years ended December 31, 1997 to December 31, 1999.
5. The corporate income tax returns for Caliméro Partenariat Inc. for the years ended December 31, 1997 to December 31, 1999.
6. The personal income tax returns for Ms D. Deslauriers for the years ended December 31, 1996 to 1999.
7. The corporate income tax returns for 140638 Canada Inc. for 2001 to 2003.
8. The electronic internal financial accounting records for Groupe Everest C.M.-P.C.R. Inc., and Everest Publicité (G.E.C.M.) Inc.
9. Complete copies of the investment accounts for Mr. C. Boulay, Ms D. Deslauriers and the Groupe Everest Companies.

10. Complete copies of the banking records for Mr. C. Boulay and Ms D. Deslauriers. We were not provided any bank statements prior to January 1999, nor were we provided with copies of the cheques for the full period under review.
11. Complete salary registers for Groupe Everest and related companies for the years 1994 to 2003. We were provided with various registers, but the registers provided do not appear to be complete.
12. Copies of cancelled cheques for all the Groupe Everest Companies. We were provided with access to certain cheques, however it appears that the documents were not complete.
13. Access to the accountants' working papers for review of period end journal entries and review of consolidated working papers of the Groupe Everest Companies.

## SECTION FOURTEEN

## DETAILED FINDINGS— COFFIN COMMUNICATIONS

## 14.1

## Business Background

Coffin Communications (2794101 Canada Inc.) ("Coffin") commenced business in 1992 and is 100% owned and operated by Mr. Paul Coffin. During the period Coffin obtained GOC business, it had two full time salaried employees, Paul Coffin and his son, Mr. Charles Coffin. Mr. P. Coffin's business relied on subcontracted expertise for purposes of fulfilling mandates, particularly for creative design and development. In addition to his interest in Coffin, Mr. P. Coffin was president of a number of real estate holding companies.

## 14.2

### GOC Selection Process

Coffin was selected as agency or part of a consortium of agencies, to provide services to the GOC as a result of the following selection processes.

#### 14.2.1 1997 Agency Selection Process

For purposes of this process, Coffin submitted its response as a venture with SOS Communications, a company owned by Mr. Robert Wolowich. All resulting work generated from this process was in the name of Coffin.

#### 14.2.2 May 2001 Agency Selection Process

Coffin qualified for a second time to provide services related to SPS activities as part of this process. Coffin significantly decreased its rates as part of the process.

#### 14.2.3 September 2000 Canadian Information Office

Coffin was part of a consortium of firms, consisting of Groupaction, Vickers and Benson, Compass and Focus that qualified as Ensemble Consortium to provide services to the CIO. Based on documentation reviewed, Coffin's role was to be "Special Projects". However, Coffin received no work through Ensemble Consortium.

## 14.3

### Contracts with GOC

#### 14.3.1 SPS Contracts

As identified in Schedule 3 to this report, Coffin received some 80 SPS contracts during the period of GOC fiscal 1994-95 and 2002-03. Coffin faces criminal charges in respect to 32 of these contracts.

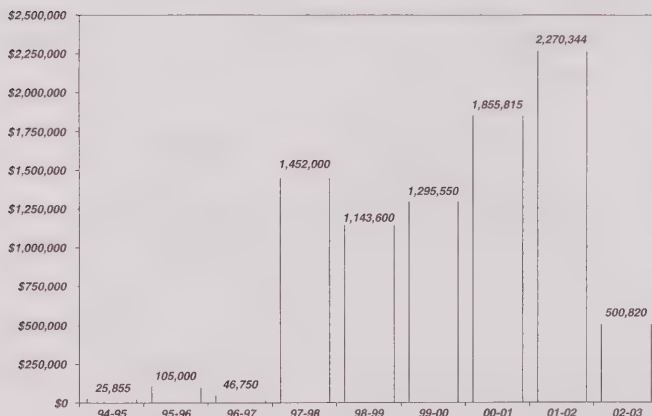
Table 103 lists by year and category of expenditure the total value of the SPS contracts received by Coffin:

Table 103: Communication Coffin - Total Value of SPS Contracts

Year	Sponsorship	Communication Agency Commissions	AOR Fee	Production/ Professional Fees	Total
1994-95	-	-	-	25,855	25,855
1995-96	-	-	-	105,000	105,000
1996-97	-	-	-	46,750	46,750
1997-98	835,000	100,200	-	516,800	1,452,000
1998-99	565,000	67,800	16,050	494,750	1,143,600
1999-00	630,000	75,600	18,000	571,950	1,295,550
2000-01	1,157,000	138,840	33,000	526,975	1,855,815
2001-02	1,775,500	213,060	53,265	228,518	2,270,343
2002-03	<u>430,000</u>	<u>51,600</u>	<u>12,900</u>	<u>6,319</u>	<u>500,819</u>
<b>Total</b>	<u>\$5,392,500</u>	<u>\$647,100</u>	<u>\$133,215</u>	<u>\$2,522,918</u>	<u>\$8,695,733</u>

Table 104 illustrates the total value of SPS contracts for each fiscal year for 1994-95 to 2002-03:

Table 104 - Communication Coffin - Total Value of SPS Contracts



In addition to the 80 SPS contracts, Coffin was also a subcontractor to Lafleur Communication Marketing in relation to the project/event "Sur la route d'Atlanta", which was included in Lafleur's contract EN771-6-0030. In 1996 Coffin was not an SPS agency and Lafleur was the contracting vehicle. Mr. P. Coffin billed \$225,000 in respect of this work.

#### 14.3.2 Advertising Contracts

As set out in the listing of advertising contracts attached as Schedule 10, Coffin was the communication agency in respect of \$7,838,639 worth of advertising contracts. Coffin's involvement in advertising consisted of two events: (i) advertising for the Clarity Act and (ii) advertising for the Canada Health Care campaign, referred to in testimony as the "Ginkgo Contract".

### 14.4

#### Management of Contracts

##### 14.4.1 General Observations

As a result of our review of Coffin's billings to the GOC and our review of other available documentation obtained during the course of our mandate, we note the following significant issues regarding Coffin's management of GOC contracts:

- i) On October 2, 2002, in response to a request by Consulting and Audit Canada to conduct a time audit related to time charges against sponsorship contracts, Mr. P. Coffin wrote to Ms Myra Conway of PWGSC and indicated that Coffin did not have a time and billing system until the summer of 2000;
- ii) In spite of not having a time and billing system, Coffin billed the GOC during the period April 1, 1997 and May 31, 2001 a total of \$1,295,395 for agency time charges;
- iii) We note that Coffin's billing practice changed in GOC fiscal 2001-02. Coffin billed a minimal amount as agency time charges.

14.4.2 Example of a Specific Contract Related Issue

In GOC fiscal 1999-2000 Coffin was the communication agency contracted with for purposes of production and media placement in respect of the Clarity Act. Documentation related to this contract has been filed before the COI as Exhibit C-373.

In reviewing Coffin's invoicing to PWGSC in respect to this advertising initiative we noted the following issues:

- i) Coffin issued invoice #782 in the amount of \$28,308.19, before GST, which included the following details:

	<u>Estimate</u>
Subcontracted cost	\$18,521.62
Agency commission of 17.65%	3,269.07
Agency production re: professional fees for 39.5 hours (Account Services Team)	<u>6,517.50</u>
Total	<u>\$28,308.19</u>

The subcontracted cost was supported by invoice #01013 from Eminence grise Inc. in the amount of \$18,521.62 for 50% of the 11.75% commission to be earned by the communication agency on the media placement. Details of the calculation were provided on the invoice. Coffin was to receive from Média/I.D.A. Vision 11.75% of media placement. Coffin's invoice #782 was submitted to the GOC and paid.

As the GOC was already paying the media commission to Coffin via Média/I.D.A. Vision, Coffin should not have also been billing the GOC for a media commission sought by a subcontractor. Therefore, while we can not comment on the appropriateness of the \$6,517.50 of professional fees billed by Coffin on invoice #782, we can state that the remaining \$21,790.69 (Eminence grise Inc. fee of \$18,521.62 plus the agency commission of 17.65%) should not have been billed to the GOC.

- ii) The amount of the overcharge was then compounded when Coffin also submitted invoice #782R. The Coffin invoice details were the same as #782, however, the supporting invoice #01013 from Eminence grise Inc. did not disclose the details of the basis of the \$18,521.62 charged. Coffin's invoice #782R was also paid by the GOC. The GOC issued payment for invoice 782 and 782R on the same cheque. One of the payments made by the GOC of \$28,308.19 plus taxes was treated by Coffin's accountants as being a duplicate payment and was identified as an amount payable to the GOC as part of Coffin's financial statements.

Based on a review of the accounting records of Coffin, Eminence grise Inc. did not receive a second payment from Coffin in respect of media commissions.

As invoice #782R appears to be a double billing, the total amount of the overcharge to the GOC in respect of these two invoices was, at a minimum, \$50,098.88 plus tax (\$21,790.69 from invoice #782 discussed above, plus the full value of invoice #782R).

## 14.5

### Financial Impact of Advertising and SPS Contracts on Results of Coffin Communication

#### 14.5.1 Revenues

The following Table summarizes Communications Coffin's revenue by year and the amount of revenue which is related to GOC contracts for the years ended October 31, 1996 to October 31, 2002 based on accounting records prepared by Coffin's outside accountants:



Table 105: Comparison of Coffin Total Revenue to Revenue from GOC 1996-2002

Year	Total Revenue	Revenue from GOC
1996	\$641,443	\$288,470
1997	723,495	671,641
1998	1,310,572	1,117,872
1999	811,601	675,016
2000	1,239,590	1,049,355
2001	1,023,392	893,214
2002	<u>277,990</u>	<u>212,833</u>
<b>Total</b>	<b><u>\$6,028,083</u></b>	<b><u>\$4,908,401</u></b>

## 14.6

## Notable Uses of Funds by Coffin Communications

## 14.6.1 Income to Coffin Family

Coffin effectively paid the majority of earnings to Mr. P. Coffin and Mr. Charles Coffin via salary and dividends. We note that in addition, based on the summary of financial statements, Coffin's retained earnings within the company rose from negative \$820 at October 31, 1996 to a high of \$324,648 on October 31, 2001.

The following table summarizes the yearly income of Communication Coffin, dividends paid to Mr. P. Coffin and the salaries paid to Mr. P. Coffin ("PC") and Mr. Charles Coffin ("CC"):

Table 106: Summary of Coffin Earnings and Dividends and Salaries Paid

Year	Earnings	Dividends – PC	Salary – PC	Salary – CC
1996	(\$40,406)	\$130,595	\$24,000	\$4,500
1997	77,049	-	70,300	12,500
1998	130,698	-	161,800	40,619
1999	61,524	-	131,600	58,720
2000	119,706	63,500	182,411	46,617
2001	7,222	-	167,706	73,915
2002	<u>1,780</u>	<u>29,000</u>	<u>17,265</u>	<u>20,950</u>
<b>Total</b>	<b><u>\$357,573</u></b>	<b><u>\$223,095</u></b>	<b><u>\$755,082</u></b>	<b><u>\$257,821</u></b>

14.6.2 Payments to Political Parties

Coffin made the following payments to federal political parties:

Table 107: Summary of Payments Made to Federal Political Parties

Year	Progressive Conservatives	Liberal
1996	300	-
1997	-	-
1998	100	-
1999	-	14,000
2000	-	8,300
2001	-	5,500
2002	-	1,500
Total	<u>\$400</u>	<u>\$29,300</u>

14.6.3 Payments to Mr. Guité and Oro Communications

Coffin and Oro, a company owned by Mr. J.C. Guité, entered into an agreement dated January 2, 2000 whereby Oro would be paid \$15,000 to "provide marketing services to develop private sector sponsorship in support of the Atlantic Formula Series in Trois-Rivières, Montréal, Toronto and Vancouver." The full value of the agreement was paid to Oro. In addition, Oro was paid \$5,600 in respect of an invoice for services provided regarding "H2O Recreation".

Mr. P. Coffin also paid \$27,000 to Mr. J.C. Guité for the purchase of a boat.

## SECTION FIFTEEN

DETAILED FINDINGS—  
VICKERS & BENSON

## 15.1

## Business Background

Vickers & Benson was first established as an advertising agency in Canada in 1924. Mr. John Hayter, in 1990, became the President, CEO, and controlling shareholder of Vickers & Benson Companies Limited ("Vickers & Benson"). The percentage ownership Vickers & Benson held in other companies is noted in the Corporate Organization charts produced as Exhibit P-412 pages 1-4.

In March 2000, the assets of Vickers & Benson were sold to a new corporation, NEWCO VB Inc. which amalgamated with Vickers & Benson Inc., to form a company now called Arnold Worldwide Canada Inc. This company is owned 100% by Havas, a French public company.

Vickers & Benson's major clients in the early 1990s included Bank of Montréal, Cantel, CFTO-TV, Ford, M&M Meats, McDonald's, MTCVA, Miles Laboratories, Molson, Ontario Hydro, Ontario Jockey Club, Ortho, Quaker, and 3M.

15.2  
GOC Selection Process

Table 108 lists the known agency selection competitions where Vickers & Benson qualified as the winning agency.

Table 108: Vickers & Benson Agency Selection Competitions

Department	Date of Final Report	Winning Agency
Tourism Heritage Canada	Sept. 19, 1994 February 8, 1995	Vickers & Benson Groupe Everest; BCP Canada; Compass Communications; Palmer Jarvis Communications; Vickers & Benson
Finance – Canada Savings	August 8, 1995	Consortium of Vickers & Benson and Groupe Everest
Retail Debt Agency – Canada Savings	May 22, 1996	Vickers & Benson
Human Resources Development Canada	October 5, 1998	LBJ-FRB Communications Inc and Vickers & Benson
Canada Information Office	September 1, 2000	Allard and Johnson Communications Inc.; Armada; Groupe Everest; Ensemble Consortium (made up of Groupaction, Vickers & Benson, Focus, Compass Communications and Coffin)
Finance Canada – Canada Investment and Savings	June 4, 2001	Publicite Martin Inc. and Vickers & Benson

15.3  
Contracts with GOC

15.3.1 SPS Contracts

As identified in Schedule 3, between July 8, 1996 and April 1, 1999, Vickers & Benson entered into ten SPS contracts with PWGSC/APORS/CCSB, totaling \$15,362,215.

The contracts for the China Series - Canada Coast to Coast ("China Series") account for five of the ten contracts and totaled \$8,848,040.

The contract for Budget '99 included \$3,400,000 for media placement and totaled \$4,350,000.

Table 109: Vickers & Benson SPS Contracts

Year	Contracts with Vickers & Benson Communications	Directions with Média/I.D.A. Vision	Total
1996-97	3,555,640	-	3,555,640
1997-98	2,642,400	-	2,642,400
1998-99	2,764,175	3,400,000	6,164,175
1999-00	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
<b>Total</b>	<b><u>\$11,962,215</u></b>	<b><u>\$3,400,000</u></b>	<b><u>\$15,362,215</u></b>

### 15.3.2 Advertising Contracts

As identified in Schedule 10, between April 1, 1994 and March 31, 2003, Vickers & Benson was the communications agency for numerous advertising contracts for which PWGSC - APORS/CCSB was the contract authority. The total contract value for the contracts in question was \$277,570,801. This listing includes Directions issued to Média/I.D.A. Vision for media purchases totaling \$91,235,926.

Table 110: Advertising Contracts for which  
Vickers & Benson was the Communication Agency

	Contracts for Media Purchases	Contracts for Work by Agency	Total
Transport Canada	0	325,000	325,000
Public Works & Government Services Canada	0	113,551	113,551
Industry Canada	1,424,247	35,049,092	36,473,339
Human Resources Development Canada	9,280,136	3,546,428	12,826,564
Health Canada	234,000	16,000	250,000
Foreign Affairs & International Trade Canada	0	150,000	150,000
Finance Canada	49,742,290	23,375,604	73,117,894
Communication Canada	0	34,200	34,200
Canadian Tourism Commission	30,555,253	123,425,000	153,980,253
Agriculture and Agri-Food Canada	<u>0</u>	<u>300,000</u>	<u>300,000</u>
	<b><u>\$91,235,926</u></b>	<b><u>\$186,334,875</u></b>	<b><u>\$277,570,801</u></b>

## 15.4

### Management of Contracts

#### 15.4.1 China Series - "Canada Coast to Coast" - \$10 million

Our review of the SPS contracts relating to the China Series disclosed a total of five PWGSC contracts beginning in July 1996 and ending in April 1999 for a total contract value of \$8,848,000. In addition, our review disclosed seven other contracts related to the China Series funded by other GOC departments with contract values of \$850,000 and one agreement funded by Aerospace Training Canada International totaling \$278,972.

Exhibit P-415, page 2 to this report lists the known contracts for the China Series, which total \$9,977,012.

The China Series encompassed 26 one-half hour episodes to be broadcast multiple times on China Central Television (CCTV). The programs used a cross-Canada trip as a backdrop to teach English to a Chinese audience, estimated to be more than 60 million viewers. The Canadian sites featured Canadian technology, infrastructure and culture. The host of each episode was Mr. Mark Rosewell, known in China as "Dashan", a star of Chinese television. The series was supported by one million copies of a companion English language booklet.

Our analysis of the funding for SPS contracts identified that a total of \$4.1 million was provided directly from the Unity Reserve for the China Series. Schedule 27 provides further information concerning this amount.

As noted, the China Series contracts totaled \$9,977,012, including contract EN771-6-0188 in the amount of \$1,400,640<sup>1</sup>, resulting in an average cost to the GOC for each of the 26 episodes of \$383,731.

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<sup>1</sup> Mr. Hayter, in his response to the COI subpoena, provided summary accounting schedules which excluded contract EN771-6-0188.

The "Requirements and Scope of Work" section of contract EN771-6-0188 states this contract is "in support of its 'Central China Television Series' Advertising Program." Appendix B to the contract describes this contract as,

"Proposal for the Promotion, Development, Production and Branding of the Government of Canada in 'Dashan and Friends' Central China Television Series."

Appendix B to the contract provides an estimate of \$1,400,640 for the anticipated work which includes the following items:

	<u>Estimate</u>
1. Promotional event at the CCBC AGM in Shanghai – estimate	\$32,000
2. Production of Canadian Promotions in Companion Booklets to the CCTV Series – estimate	\$153,875
3. GOC Branding on all CCTV Series Episodes (13) – estimate	\$172,250
4. Production of Seven In-Canada Special "Canada in the Global Economy" segments – estimate	\$788,015
5. English Language Training Lesson Plans – estimate	<u>\$254,500</u>
Total	<u>\$1,400,640</u>

The average cost to the GOC for each of the 26 episodes excluding contract EN771-6-0188 would be \$329,860.

Kroll has reviewed the five PWGSC contracts relating to this China Series and we note that one of the five, contract EN771-7-0017 dated April 1<sup>st</sup>, 1997, stipulates in Annex A under the "Basis of Payment" heading that,

" The Contractor shall be paid a firm all inclusive lot price of \$1,597,400 (GST extra if applicable) for the services as detailed herein provided to the Project Authority, Ottawa, Ontario based on the following per episode cost of:

Producer: 10 days @ 2,250/day =	\$22,500
Director: 10 days @ \$1,850/day =	\$18,500
ESL Linguistic Coordinator: 12 days @ \$1,850/day =	\$22,200
Production Coordinator: 46 days @ \$1,500/day =	\$69,000
Camera Crew: 5 days @ \$7,500/day =	\$37,500
In-Studio Production: 4 days @ \$6,500/day =	\$26,000
Graphic Studio Designer: 10 days @ \$1,500/day =	\$15,000
Producer and Crew Travel and	
On-Location Expense: 5 days =	\$17,500
Subtotal	\$228,200
Full Second Flight Costs	
@ 228,200 each, times 7 episodes	
Total	\$1,597,400"

The other four PWGSC contracts under the "Basis of Payment" heading refer to Appendix "A" of the contract which provides the "Basis of Payment" is to be determined as follows:

"A. In-House Production, which includes "creative services, "art direction services", "writing services", based on "firm hourly rates...multiplied by the number of hours of services necessary."

B. Cost Reimbursable Charges

B.1.2. For sub-contracts less than \$30,000 GST included or for TV Production,

" The contractor will be reimbursed for any actual expenditures reasonably and properly incurred to acquire goods and services from outside suppliers at the suppliers price, net of an trade or prompt payment discounts, plus 17.65% thereon by way of overhead and profit."

Vickers & Benson invoiced PWGSC \$8,848,000 for the five contracts, all, in effect, as fixed price "all inclusive" contracts. Vickers & Benson did not submit any supporting invoices from subcontractors to PWGSC or any invoices which particularized hours worked by Vickers & Benson employees



on this project.

Pursuant to the COI subpoena, Vickers & Benson provided supplier invoices relating to this China Series totaling \$4.3 million in support of a listing of expenses totaling \$4.7 million.

In addition, Vickers & Benson provided a recently prepared estimate of hours spent by Mr. Hayter and other Vickers & Benson employees on this project between 1993 and 1999. Based on this estimate of hours worked and a calculation of an hourly rate based on salaries paid to the persons involved, and including an additional charge to cover office "overhead" based on 95% of the calculated labour rate, Vickers & Benson estimated it incurred "In-house Production Labour" costs of \$1.8 million and "Project Management" costs of \$2.3 million for total In-house costs of \$4.1 million. The cost for Mr. Hayter included in this amount was \$627,000, based on an estimate of 1,900 hours at a cost per hour of \$330. Based on this costing approach, Vickers & Benson estimated it made a profit on the China Series including contract EN771-6-0188 of \$1.2 million or 12% of gross billings.

We note that the last two PWGSC contracts, EN771-8-0098 dated January 15, 1999 and EP043-9-0048 dated April 1, 1999 related to the second set of 13 episodes and totaled \$4,500,000 or \$346,154 per episode. We did not identify any information in PWGSC file on Vickers & Benson file concerning how these amounts were determined.

#### 15.4.2 Budget '99 - \$4,350,000

This contract was funded from monies allocated for SPS contracts but relates to an advertising campaign for the 1999 Federal Budget.

#### 15.4.3 Advertising

Kroll reviewed the invoices and underlying supporting documentation for a sample of Vickers & Benson advertising contracts as noted below:

Table 111: Vickers & Benson Advertising Contracts Reviewed by Kroll

U1740-6-0002	Tourism	Asia Pacific	\$ 5,360,000
U1710-6-0081	Tourism	Asia Pacific	7,148,000
60074-8-0259	Finance	"98/99" various	3,000,000
V8009-8-0023	HRDC	ISP Information	50,000
V8009-9-0023	HRDC	ISP Information	274,000
U1710-6-0388	Tourism	U.S. Leisure Program	<u>6,000,000</u>
			<u>\$21,832,000</u>

Our review of these files found that Vickers & Benson billed the department for agency time charges based on estimates approved by the department and not actual hours incurred at the hourly rates stipulated in the contracts.

15.5

Financial Impact of Advertising and SPS Contracts on Results of Vickers & Benson

15.5.1 GOC Revenue Compared to Other Revenue

As noted in Exhibit P-412 page 210, between 1996 and 2003, Vickers & Benson's GOC revenues from both SPS contracts and Advertising contracts, in total accounted for between 20% and 34% of total revenue, or an average of 23% during that 8-year period.

15.6

Notable Uses of Funds by Vickers & Benson

15.6.1 Salaries and Management Bonuses

Exhibit P-412 pages 9(B) and 10 identify the management and employee bonuses paid between 1994 and 2003.

15.6.2 Payments to Oro Consulting

Exhibit P-414, pages 5 and 6, lists payments made by PacCanUs Inc., the corporate entity which owns 100% of Vickers and Benson, to Oro Consulting between April 2000 and April 2002. The payments total \$371,600 for consulting fees and a total of \$29,795 for expenses.

## 15.6.3 Payments to Political Parties

Exhibit P-412 page 232 details the payments made to the Liberal Party of Canada as recorded in the books and records of Vickers & Benson and as reported by Elections Canada for Vickers & Benson Advertising Ltd., Genesis Media Inc., John Hayter, Southside Digital Communications, Warwick and Associates and PacCanUs.



## SECTION SIXTEEN

**DETAILED FINDINGS—  
BCP GROUP****16.1****Business Background**

BCP Ltée ("BCP"), formerly "Le Groupe BCP Ltée", was established as an advertising agency in Canada in 1963. In 1984, Mr. Yves Gougoux acquired (indirectly through BCP Canada Inc.) 50% of the outstanding shares of BCP and became the President of the company. He acquired additional shares in 1989 and became the majority shareholder of BCP. Between 1989 and 1996, minority shareholders were gradually bought out.

In 1996, a corporate reorganization took place in connection with the planned sale of a significant part of BCP Canada to Publicis S.A., a French public company. As a result of this reorganization, the assets included in the transaction were now held by 9039-4073 Québec Inc. (Publicis•BCP Inc.), a newly incorporated subsidiary of BCP. The assets transferred included client

accounts (other than government accounts and conflicting clients) and shares of all subsidiaries (excluding BCP). On September 10, 1996, 70% of the shares of 9039-4073 Québec Inc. were sold to Publicis S.A. The remaining 30% was retained by Mr. Gougoux through his holding companies.

The ownership percentage Mr. Y. Gougoux and BCP held in other companies at various dates, before and after the 1996 reorganization, is noted in the Corporate Organization charts produced as Exhibit P-419(A) page 2 to 8.

16.2

GOC Selection Process

Table 112 lists the known agency selection competitions where BCP qualified as the winning agency, including the 1994 Tourism selection competition.

Table 112:: BCP - Agency Selection Competitions

Date of Final Report	Department	Winning Agency
Sept. 19, 1994	Tourism	Vickers & Benson
February 8, 1995	Heritage Canada	Groupe Everest; BCP Canada; Compass Communications; Palmer Jarvis Communications; Vickers & Benson
September 11, 2000	Health Canada	Le Groupe BCP Ltee

It should be noted that, despite the fact that BCP was not the selected agency for Tourism, more than \$65.7 million in contracts were awarded to BCP by Tourism from 1994 to 2003, as mentioned at page 8 of Chapter 4 of the AG's report.

16.3

Contracts with GOC

16.3.1 SPS Contracts

Between 1998/96 and 1998/99 GOC fiscal years, BCP managed nine SPS contracts with a total value of \$6.3 million, as detailed in Exhibit P-419(A) page 75 and 76.

Two contracts were issued prior and during the 1995 referendum campaign, including contract EN771-5-UI00 for \$5,460,000, of which \$3,400,000 was related to media purchase.

### 16.3.2 Advertising Contracts

Between 1994/95 and 2002/03, BCP acted as communication agency for advertising contracts with a maximum value of \$152.5 million. A complete list of the advertising contracts is included as Schedule 10 of this report.

Of the \$152.5 million, \$68.0 million represented media purchases through the AOR (Genesis Media and/or Media/I.D.A. Vision). As the communication agency, BCP would receive a commission of 11.75% of the media purchased.

## 16.4

### Management of Contracts

For the fiscal year 1995 to 2003, the contracting entity for all of the SPS and advertising contracts was BCP.

In order to fulfill these contracts, BCP subcontracted part of the work to subsidiaries, related companies and/or companies under the control of Publicis Canada Inc., which was in turn controlled by a France-based company.

## 16.5

### Financial Impact of Advertising and SPS Contracts on Results of BCP

#### 16.5.1 Level of GOC Business

The following table presents a comparative analysis of BCP gross billing versus revenue for the years 1994 to 2003:

Table 113: BCP Gross Billing versus Revenue for 1994 to 2003 (\$000's)

		GOC (PWGSC and other Departments)	Crown Corporations	Total GOC and Crown Corporations
	Total			
Gross billing		132,486	176,189	308,675
External costs		110,132	160,755	270,887
Revenue	90,700	22,354	15,434	37,788
Percentage of total revenue	<u>100%</u>	<u>24.7%</u>	<u>17.0%</u>	<u>41.7%</u>

As noted in Table 113, during the period from 1994 to 2003, BCP's PWGSC and other departments' revenues from both SPS contracts and Advertising contracts totaled \$22.4 million (after deduction of external costs), representing 24.7% of BCP's total revenues of \$90.7 million for the period. In addition, advertising contracts were also awarded to BCP during the same period by Crown Corporations. From 1994 to 2003, BCP generated a total of \$15.4 million in revenue from Crown Corporations, representing 17.0% of BCP's total revenues.

In summary, from 1994 to 2003, PWGSC and other departments and Crown Corporations combined revenues totaled \$37.8 million, or 42% of BCP's total revenues.

#### 16.5.2 Revenue from Political Associations

The analysis of BCP's revenue by client revealed that from 1994 to 2003 advertising related services were rendered to a number of political associations including Option Canada, the Liberal Party of Canada and The Federal Liberal Agency of Canada.

#### Option Canada

Option Canada was incorporated on September 7, 1995. We understand that they received \$4.8 million from Canadian Heritage before the Quebec referendum.



From September 15 to October 5, 1995, shortly prior before the referendum, BCP invoiced Option Canada for a total of \$2.6 million (including taxes) for media purchases and advertising related services.

### **Liberal Party of Canada and The Federal Liberal Agency of Canada**

During the 1997 and 2000 election campaigns, BCP rendered advertising related services, including media purchases, to the Liberal Party of Canada and The Federal Liberal Agency of Canada for which BCP was paid \$4.5 million (\$2.0 million for the 1997 campaign and \$2.5 million for the 2000 campaign).

## **16.6**

### **Notable Uses of Funds by BCP**

#### **16.6.1 Salaries and Management Bonuses**

As previously mentioned, Mr. Y. Gougoux is the president and controlling shareholder of BCP. From 1994 to 1996, he received salaries and bonuses for a total of \$1.6 million. We understand that after 1996, Mr. Y. Gougoux was paid directly by Publicis Canada Inc.

#### **16.6.2 Political Contributions**

From 1993 to 2003, BCP made political contributions to the Liberal Party of Canada for a total of \$97,720 as recorded in the books and records of the company. Receipts were issued by Elections Canada for a total of \$86,611, as per Elections Canada's Internet site.

KROLL LINDQUIST AVEY CO.



Per: Robert M. Macdonald, CA-IFA



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## APPENDICES



B

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APPENDIX B

SAMPLE SUBPOENA

COMMISSION OF INQUIRY INTO THE SPONSORSHIP PROGRAM  
AND ADVERTISING ACTIVITIES

*SUBPOENA*

*TO*

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I - Testimony

Pursuant to the authority granted to Justice John H. Gomery by Order in Council P.C. 2004-1110 and Part I of the Inquiries Act, section 4, this is to order you to attend at the Guy-Favreau Complex, Conference Centre (200 René-Lévesque boulevard West, Montréal) before the Commissioner, John H. Gomery on Monday, February 7, 2005 at 9:30 a.m., or on such other date fixed by the Commission, to give oral evidence relevant to the following matters, with definitions as appropriate set forth in Appendix A:

1. the creation, purpose, objectives of the Sponsorship Program and the National Unity Reserve Fund;
2. the selection of communications and advertising agencies in relation to the advertising activities;
3. the management of the Sponsorship Program, National Unity Reserve and advertising activities by the Government of Canada;
4. the receipt and use of any funds or commissions disbursed in connection with the Sponsorship Program, National Unity Reserve and advertising activities by any person or organization, either internal or external to the Government of Canada;
5. the flow of the Sponsorship Program, National Unity Reserve and advertising activities funds within the Government, both to the point that these funds were disbursed to non-Government of Canada sources, including the return of funds or any part thereof to the Government of Canada;
6. any gift, contribution or payment, in any form, made directly or indirectly by any recipient of funds from the Sponsorship Program, National Unity Reserve or advertising activities of the Government of Canada - including services rendered to a political organization, a political party, a member of Parliament, a political party leadership contestant, a candidate in an election, or a political party nomination contestant;
7. the identities of any person or organization who received Sponsorship Program, National Unity Reserve or advertising activity funds, including fees or commissions, the purpose for which those funds were disbursed to that person or organization, and the value for money received by the Government of Canada;
8. contractual and related documents, including tenders, contracts (including drafts), follow-ups, analyses (pre-contract and post-contract),

and all the files at issue in the Sponsorship Program and advertising activities;

9. documents and information produced either by the Government of Canada or yourself before the House of Commons Standing Committee on public accounts; and
10. any other document related to the Sponsorship Program, National Unity Reserve and advertising activities of the Government of Canada.

## II- Documents and Information

Further, pursuant to the authority granted to Justice John H. Gomery by Order in Council P.C. 2004-110 and Part I of the *Inquiries Act*, section 4, this is to order you to produce to the Commissioner, John H. Gomery at the Commission's Office at Guy-Favreau Complex East Tower, Suite 608, 200 René-Lévesque Blvd. West, in Montréal on Monday, July 5, 2004 at 9:30 a.m., all documents in your possession, custody or control, relevant to the matters outlined above.

Further, pursuant to the authority granted to Justice John H. Gomery by Order in Council P.C. 2004-110 and Part I of the *Inquiries Act*, section 4, this is to order you to produce to the Commissioner, John H. Gomery at the Commission's Office at Guy-Favreau Complex East Tower, Suite 608, 200 René-Lévesque Blvd. West, in Montréal on Monday, July 5, 2004 at 9:30 a.m., the following information:

- I. Provide a list of all persons, including their present and, where relevant, former position(s), together with current addresses, telephone numbers, fax numbers and e-mail addresses, who have any relevant knowledge of, or involvement in, any of the matters identified in section I. Without limiting the generality of the foregoing, the list should specifically include and identify all persons who might reasonably be considered to have relevant and material evidence as witnesses before the Commission at public hearings.

2. Provide documents in connection with :

- a) the normal or standard rules, procedures, structures, reporting lines, systems and guidelines for approvals, internal controls, implementation and administration of procurement programs and selection of service providers by the Government of Canada, including modifications thereto where relevant; and
- b) the normal or standard rules, procedures, structures, reporting lines and guidelines for the creation, approvals, internal controls, implementation and administration of the Sponsorship Program, National Unity Reserve Fund and advertising activities of the Government of Canada, and whether, how and by whom there were deviations from, or non-compliance with, the standard norms.

Further, pursuant to the authority granted to Justice John H. Gomery by Order in Council P.C. 2004-110 and Part I of the Inquiries Act, section 4, this is to order you to produce to the Commissioner, John H. Gomery at the Commission's Office at Guy-Favreau Complex East Tower, Suite 608, 200 René-Lévesque Blvd. West, in Montréal on Monday, July 5, 2004 at 9:30 a.m., the following documents:

- I. Any document in connection with the receipt of funds under the Sponsorship Program, National Unity Reserve, and advertising activities by yourself or  
and any entity listed in appendix D herein, including without limiting the generality of the foregoing, any contract, invoice, proposal relating with the payment of such funds in connection with, but not limited to, events mentioned in Appendix C. Such documents should include:
  - a) the names, addresses and contact numbers of any person involved in the transfer of such funds to yourself, and any entity listed in appendix D herein;
  - b) the amounts paid both to yourself, (including any entity listed in appendix D herein) and any agency, broken down by fees, commissions and services (with description); and



- c) the names, addresses and contact numbers of the officials of any agency, who may have relevant information relating to the receipt of such funds by yourself, and any entity listed in appendix D herein.
- 2. Any document in connection with the receipt of any other grant, contribution, or other payment by the Government of Canada, one of its departments, or by a Crown corporation to yourself or and any entity listed in appendix D herein (including subsidiaries and sub-contractors) through the CCSB agency of record, a communications or advertising agency, including subsidiaries and subcontractors of those agencies. Such documents should include:
  - a) the names, addresses and contact numbers of agencies involved in such transfers of funds;
  - b) the amounts paid both to yourself, (including any entity listed in appendix D herein) and any agency, broken down by fees, commissions and services (with description); and
  - c) the names, addresses and contact numbers of the officials of any agency, who may have relevant information relating to the receipt of such funds by yourself, and any entity listed in appendix D herein.
- 3. Any document in relation to:
  - a) the normal or standard rules, procedures, structures, reporting lines, systems and guidelines for grants, contributions, or other transfer payments by the Government of Canada or one of its departments, including Crown corporations and agencies, to any communication or advertising agency, including and any entity listed in appendix D herein, and modifications thereto where relevant; and
  - b) the normal or standard rules, procedures, structures, reporting lines, systems and guidelines for approvals and internal controls, in relation to the implementation and administration of the transfer of funds from the Sponsorship Program, the National Unity Reserve Fund and advertising activities to any communication or advertising agency, including and any entity listed in appendix D herein, and whether and how those rules and standards were circumvented or not-complied with.

4. All correspondence, including email, in relation to the Sponsorship program and advertising activities described in chapters 3 and 4 of the November 2003 Report of the Auditor General of Canada to the House of Commons exchanged between yourself, \_\_\_\_\_ and any entity listed in appendix D herein, or its agents, servants, officials, contractors, or employees (former or present) and Public Works and Government Services Canada from January 1, 1994 to the present.
  
5. All correspondence, including email, exchanged between yourself, \_\_\_\_\_ and any entity listed in appendix D herein, or its agents, servants, officials, contractors, or employees (former or present) and communications or advertising agencies (including subsidiaries and subcontractors or those agencies) with whom yourself, \_\_\_\_\_ and any entity listed in appendix D herein conducted business with, from January 1, 1994 to the present, in the context of chapters 3 and 4 of the November 2003 Report of the Auditor General of Canada to the House of Commons, including \_\_\_\_\_ and any of their subsidiaries and subcontractors.

Further, pursuant to the authority granted to Justice John H. Gomery by Order in Council P.C. 2004-1110 and Part I of the Inquiries Act, section 4, this is to order you to produce to the Commissioner, John H. Gomery at the Commission's Office at Guy-Favreau Complex East Tower, Suite 608, 200 René-Lévesque Blvd. West, in Montréal on Monday, July 5, 2004 at 9:30 a.m., all documents (including those listed in appendix B) establishing your financial situation and the financial situation of each entity listed in appendix D herein, between January 1, 1994 to the present. Such documents and information must include the financial situation of your spouse, your children and any corporations or trusts in which you, or your spouse and your children have any direct or indirect interest.

Dated this 9<sup>th</sup> day of June, 2004, in Montreal

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John H. Gomery, Commissioner

## Appendix A

### A. Definitions

- (a) "Advertising activities" includes the advertising activities referred to in the November 2003 Report of the Auditor General of Canada to the House of Commons with regard to the sponsorship program and advertising activities of the Government of Canada and, for greater certainty, includes these activities from January 1, 1994 to the present.
- (b) "Crown corporations and agencies" includes, without limiting the generality of the foregoing, Business Development Bank of Canada ("BDC"), Canada Mortgage and Housing Corporation ("CMHC"), Canadian Tourism Commission, Old Port of Montreal Corporation, National Arts Centre Corporation, National Capital Commission, Via Rail Canada Inc. ("VIA"), Canada Post Corporation, Royal Canadian Mounted Police ("RCMP") and Canada Lands Company Limited.
- (c) "Document" includes any memorandum, data, analysis, report (including internal or other audit reports), minutes, briefing material, submission, correspondence, record (including accounting and financial records), agenda, diary, note, study, investigation, test, file, e-mail or other electronic file or communication or other communication or material in writing both internal to the Government of Canada or sent to or received from external sources), including, without limiting the generality of the foregoing, any document as defined herein that may be subject to Cabinet or Executive privilege, in the possession, custody or control of the Government of Canada, its agents, servants, officials, or contractors including any present or former Government of Canada employee, Minister or exempt (political) staff. For greater certainty, this includes documents in off-site storage or which have been archived, and any electronic files, documents and communications. In the case of electronic files, documents and communications, these should not

be copied or attached in any manner that might result in electronic information about it being lost or changed, and the hard drives should be preserved.

- (d) "Employee" includes any present or former employee, agent, servant, official, or contractor of the Government of Canada.
- (e) "Government of Canada" includes, without limiting the generality of the foregoing, all elected or non-elected persons, institutions, departments and organizations employed by, working within, or part of the Government of Canada. By way of illustration, this includes:
  - i) Present and former Cabinet Ministers, including Prime Ministers, and persons employed by and working in their offices, including their ministerial, constituency and other offices;
  - ii) Present and former exempt (political) staff;
  - iii) Employees of the Government of Canada;
  - iv) Prime Minister's Office ("PMO");
  - v) Privy Council Office ("PCO");
  - vi) Treasury Board, including the Treasury Board Secretariat;
  - vii) Public Works and Government Services Canada ("Public Works") and its predecessors, successors and assigns; and specifically, includes Communication Canada and Communications Co-ordination Services Branch ("CCSB"), and Advertising and Public Opinion Research Sector ("APORS");
  - viii) Department of Finance;
  - ix) Department of Justice;
  - x) Tourism Canada;
  - xi) Canada Customs and Revenue Agency;
  - xii) Health Canada; and
  - xiii) Crown Corporations and agencies, and their employees.
- (f) "Minister" includes any present or former Cabinet Minister, including

Prime Minister.

- (g) "Sponsorship Program" means the Sponsorship Program referred to in the November 2003 Report of the Auditor General of Canada to the House of Commons with regard to the sponsorship program and advertising activities of the Government of Canada and, for greater certainty, includes the sponsorship activities from January 1, 1994 to the present.
- (h) "National Unity Reserve" means the fund established for the purposes of Canadian national unity which was administered by the PMO and abolished in the Budget presented by Minister of Finance Ralph Goodale to the House of Commons on March 23, 2004.

## Appendix B

### I. With respect to yourself and family members:

- a) Bank records including bank records inside or outside Canada, including but not limited to:
  - List of bank accounts;
  - List of investment accounts;
  - Chequing accounts - statements, cancelled cheques, deposit/withdrawal slips, transfer documents;
  - Cheque stubs or cheque copies;
  - Bank reconciliations;
  - Savings accounts - statements, deposit/withdrawal slips and transfer documents;
  - Loan accounts (including mortgages and lines of credit) - statements, payments and loan draws;
  - Foreign currency accounts - statements, cancelled cheques, deposit/withdrawal slips, transfer documents;
  - Investments Accounts - statements, deposit/withdrawal slips and transfer documents;
  - Copy of supporting documents for all investment transactions;
  - Credit Cards - all transactions (transaction slips and monthly statements).
- b) Pay slips;
- c) RRSP'S records;
- d) Income tax returns and declarations of revenue (1994 to the present);
- e) Telephone records (including cellular phone records);

- f) All documents and records relating to the purchase and financing of any direct or indirect interest in real estate inside or outside Canada;
  - g) Any other financial and accounting records and documents.
2. With respect to any corporations or trusts in which you, or your spouse and your children have any direct or indirect interest, including without limiting the generality of the foregoing, persons, corporations or entities listed in appendix D:
- a) Corporate Records and Documents:
    - Articles of incorporation;
    - Certificate of amendment;
    - Annual reports (both provincial and federal if applicable) for each year ending within the period;
    - Minute books of director(s) meetings;
    - Minute books of shareholder(s) meetings;
    - Shareholder's listing;
    - Share certificates;
    - Officer and director's listing;
    - Merger or amalgamation memorandum or letter;
    - Organisational charts.
  - b) Banking Records:
    - List of bank accounts (including foreign bank accounts);
    - List of investment accounts (including foreign investment accounts);
    - All bank statements together with the cancelled, cashed and paid cheques and any other supporting documents;
    - Bank deposit slips (book);
    - Cheque stubs or cheque copies;
    - Bank reconciliations;
    - Copy of supporting documents for all investment transactions.



## c) Accounting Records and Financial Information:

- Narrative description of the accounting system in place in any of the corporations or entities listed in Appendix D, whether in written or graphic form;
- Chart of accounts;
- Audited Financial Statements for each years ending within the period together with notes thereto and auditor's report;
- Unaudited Financial Statements for each years ending within the period together with notes thereto and accompanying Accountant's comments or Notice to reader;
- Internal Financial Statements for each of the years ending within the period;
- Trial balances;
- General ledger;
- Journal entries and supporting details;
- Sales/income journal;
- Accounts receivable listings and/or sub-ledgers;
- Purchases journal;
- Accounts payable listings and/or sub-ledgers;
- Cash receipts and cash disbursements journal;
- Payroll registers;
- List of employees and related chargeable rate;
- List of clients;
- List of suppliers, sub-contractors, external consultants;
- Listing of reports and analyses generated by the accounting system for management and accounting purposes;
- Any proposal, contract and agreement in relation with any of the events referred to, or covered by any of the contracts listed in Appendix C;
- Copies of invoices issued for or by any of the events referred to, or covered by any of the contracts listed in Appendix C
- Detailed income analysis by clients, by months, by projects for each year ending within the period;

- Copies of invoices issued by suppliers, sub-contractors and/or external consultant in relation with events referred to, or covered by any of the contracts listed in Appendix C; showing the detail work performed and/or the detail of the services rendered;
- Expense reports for all employees.

d) Other:

- Phone records (business and cellular), including long distance calls;
- Timesheets for all the employees;
- Diaries, agendas, calendars for all the employees
- Correspondence, including email in relation with events referred to, or covered by any of the contracts listed in Appendix C.





C

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APPENDIX C

## SAMPLE CALL LETTER

Montréal, April 1, 2004

VIA COURIER

Mr. Sylvain Lussier  
DESJARDINS DUCHARME STEIN MONAST  
Tour de la Banque Nationale  
600, rue de La Gauchetière Ouest  
Bureau 2400  
Montréal (Québec) H3B 4L8

Dear Mr. Lussier:

**Re: Commission of Inquiry into the Sponsorship Program and  
Advertising Activities of the Government of Canada**

You have advised me that you act as counsel of the Government of Canada in the above-noted Commission of Inquiry ("the Inquiry"). In that capacity, enclosed herewith please find a preliminary Document and Information Request #1 (the "Request") addressed to the Government of Canada. Kindly produce the documents and supply the information requested on or before April 30, 2004 as indicated in the Request.

Several points in the Request should be noted.

First, you have advised Commission counsel that, while you act as counsel to, and your client generically is, the "Government of Canada", there are nevertheless persons and organizations which might otherwise come within that rubric which you do not represent as counsel. You will note the definition of the "Government of Canada" in the Request. Please, advise us promptly in two separate lists which persons and organizations you do represent before the Commission, and which you do not. As well, to the extent this changes in the future, please advise us of those modifications.

Second, you will note that the definition of the "Government of Canada" in the Request includes, for example, Crown Corporations, Crown Agencies and exempt (political) staff. You have advised Commission counsel that you do not represent those persons and organizations. Nevertheless, for greater certainty, those parts of the "Government of Canada" that you do represent no doubt have documents (as defined in the Request) and information relating to, or from or about, those persons and organizations which you do not represent. The Request thus seeks the production of documents and the supply of information in relation to them from your client, and hence we have used an extended definition of Government of Canada.

Page 2

Third, while the Auditor General literally comes within the definition of the Government of Canada, we have established a separate process for dealing with her as she is an independent entity reporting to Parliament. We thus do not expect you to produce documents pursuant to this Request which are within her possession.

We will expect you to certify that Document and Information Request #1 has been full complied with.

We should discuss the logistics of the manner in which the enclosed Request can best be implemented.

Sincerely,

A handwritten signature in dark ink, appearing to read "Neil Finkelstein", written in a cursive style.

Neil Finkelstein

NF/mjc

Encl.

COMMISSION OF INQUIRY INTO THE SPONSORSHIP PROGRAM  
AND ADVERTISING ACTIVITIES

DOCUMENT AND INFORMATION REQUEST

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GOVERNMENT OF CANADA DOCUMENT AND INFORMATION REQUEST # 1

Date of Request: April 1st, 2004

Request due: April 30, 2004

This Document and Information Request is made pursuant to the authority granted to Justice John H. Gomery by Part I of the *Inquiries Act*, section 4, which authority has been delegated to Commission counsel pursuant to section 11 of the *Inquiries Act*.

A. Definitions

- (a) "Advertising activities" includes the advertising activities referred to in the November 2003 Report of the Auditor General of Canada to the House of Commons with regard to the sponsorship program and advertising activities of the Government of Canada and, for greater certainty, includes these activities from January 1st, 1994 to the present.
- (b) "Crown corporations and agencies" includes, without limiting the generality of the foregoing, Business Development Bank of Canada ("BDC"), Canada Mortgage and Housing Corporation ("CMHC"), Canadian Tourism Commission, Old Port of Montreal Corporation, National Arts Centre Corporation, National Capital Commission, Via Rail Canada Inc. ("VIA"), Canada Post Corporation, Royal Canadian Mounted Police ("RCMP").



- (c) "Document" includes any memorandum, data, analysis, report (including internal or other audit reports), minutes, briefing material, submission, correspondence, record (including accounting and financial records), agenda, diary, note, study, investigation, test, file, e-mail or other electronic file or communication or other communication or material in writing both internal to the Government of Canada or sent to or received from external sources including legal opinions (whether subject to solicitation client privilege or not), including, without limiting the generality of the foregoing, any document as defined herein that may be subject to Cabinet or Executive privilege, in the possession, custody or control of the Government of Canada, its agents, servants, officials or contractors including any present or former Government of Canada employee, Minister or exempt (political) staff. For greater certainty, this includes documents in off-site storage or which has been archived, and any electronic files, documents and communications. In the case of electronic files, documents and communications, these should not be copied or attached in any manner that might result in electronic information about it being lost or changed, and the hard drives should be preserved.
- (d) "Employee" includes any present or former employee, agent, servant, official, or contractor of the Government of Canada.
- (e) "Government of Canada" includes, without limiting the generality of the foregoing, all elected or non-elected persons, institutions, departments and organizations employed by, working within, or part of the Government of Canada. By way of illustration, this includes:
- i) Present and former Cabinet Ministers, including Prime Ministers, and persons employed by and working in their offices, including their ministerial, constituency and other offices;
  - ii) Present and former exempt (political) staff;
  - iii) Employees of the Government of Canada;

- iv) Prime Minister's Office ("PMO");
  - v) Privy Council Office ("PCO");
  - vi) Treasury Board, including the Treasury Board Secretariat;
  - vii) Public Works and Government Services Canada ("Public Works") and its predecessors, successors and assigns; and specifically, includes Communication Canada and Communications Co-ordination Services Branch ("CCSB"), and Advertising and Public Opinion Research Sector ("APORS");
  - viii) Department of Finance;
  - ix) Department of Justice;
  - x) Tourism Canada;
  - xi) Canada Customs and Revenue Agency;
  - xii) Health Canada;
  - xiii) Crown Corporations and agencies, and their employees.
- (f) "Minister" includes any present or former Cabinet Minister, including Prime Minister.
- (g) "Sponsorship Program" means the Sponsorship Program referred to in the November 2003 Report of the Auditor General of Canada to the House of Commons with regard to the sponsorship program and advertising activities of the Government of Canada and, for greater certainty, includes the sponsorship activities from January 1st, 1994 to the present.
- (h) "National Unity Reserve" means the fund established for the purposes of Canadian national unity which was administered by the PMO and abolished in the Budget presented by Minister of Finance Ralph Goodale to the House of Commons on March 23, 2004.

B. Document Requests

For the period January 1st, 1994 to the present time and continuing, produce by April 30, 2004 all documents, including all copies identified as to source and, for each original and copy, in whose custody, possession and control it was found and, where relevant, indicating the author of marginalia, which are relevant to the following matters:

1. the creation, purpose, objectives of the Sponsorship Program and the National Unity Reserve Fund;
2. the selection of communications and advertising agencies in relation to the advertising activities;
3. the management of the Sponsorship Program, National Unity Reserve and advertising activities by the Government of Canada;
4. the receipt and use of any funds or commissions disbursed in connection with the Sponsorship Program, National Unity Reserve and advertising activities by any person or organization, either internal or external to the Government of Canada;
5. the flow of the Sponsorship Program, National Unity Reserve and advertising activities funds within the Government, both to the point that these funds were disbursed to non-Government of Canada sources, including the return of funds or any part thereof to the Government of Canada;
6. Any gift, contribution or payment made directly or indirectly by any recipient of the Sponsorship Program, National Unity Reserve or advertising activities funds for political purposes;

7. the identities of any person or organization who received Sponsorship Program, National Unity Reserve or advertising activity funds, including fees or commissions, the purpose for which those funds were disbursed to that person or organization, the extent of value for money received by the Government of Canada;
8. contractual and related documents, including tenders, contracts (including drafts), follow-ups, analyses (pre-contract and post-contract), and all the files at issue in the Sponsorship Program and advertising activities;
9. documents and information produced by the Government of Canada to the House of Commons Standing Committee or public accounts; and
10. any other document related to the Sponsorship Program, National Unity Reserve and advertising activities of the Government of Canada.

C. Information Request

1. Provide a list of all persons, including their present and, where relevant, former position(s), together with current addresses, telephone numbers, fax numbers and e-mail addresses, who have any relevant knowledge of, or involvement in, any of the matters identified in items I. to I0. in the "Document Requests" section above. Without limiting the generality of the foregoing, the list should specifically include and identify all persons who might reasonably be considered to have relevant and material evidence as witnesses before the Commission at public hearings; and
2. Provide a list of all departments and organizations in the Government of Canada, including Crown corporations and Crown agents, which have relevant documents, information and evidence in relation to any of the matters identified in items I. to I0. in the "Document Request" section above, together with:

- a) names, positions (present or former) addresses, telephone numbers, fax numbers and e-mail addresses of persons who are suitable contact points for information and documentation;
  - b) organizational charts for all such departments and organizations for the period January 1st, 1994 to the present, with the names, positions and contact numbers for the people holding relevant positions at relevant times.
3. Provide documents in relation to, and a person or persons to explain:
- a) the normal or standard rules, procedures, structures, reporting lines, systems and guidelines for approvals, internal controls, implementation and administration of procurement programs and selection of service providers by the Government of Canada, including modifications thereto where relevant;
  - b) the rules, procedures, structures, reporting lines and guidelines for the creation, approvals, internal controls, implementation and administration of the Sponsorship Program, "National Unity Reserve" Fund and advertising activities, and whether, how and by whom there were deviations from, or non-compliance with, the standard norms.
4. List of all the communications and advertising agencies, including subsidiaries and sub-contractors (collectively "agencies") to whom contracts were awarded or services retained by the Government of Canada between January 1st, 1994 and the present. Such list should include:
- a) name, addresses and contact numbers of agencies;
  - b) amounts paid, broken down by fees, commissions, and services (with description);
  - c) principals of agencies, including names, addresses and contact numbers; and
  - d) affiliates of agencies, and principals of the affiliates.



## D

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### APPENDIX D

# KROLL'S INVOLVEMENT WITH DOCUMENT MANAGEMENT AND REVIEW

## I.O

### PROTOCOLS & PROCEDURES

Millions of pages of documents were produced in response to the Commission of Inquiry ("COI") subpoenas and Government of Canada ("GOC") call letters (federal government equivalent to a subpoena). Given the large volume of documents, protocols and procedures were developed to facilitate document access and the assessment of privilege for document production and disclosure.

#### I.1 Access to Documents Produced by GOC

The GOC documents were stored in special GOC Libraries for which the COI had full access. In this way the COI could conduct its review of the

documents and the GOC could continue to respond to access to information requests, assess the documents for privilege and continue the scanning and/or duplication of the key documents.

The protocols regarding GOC document production are detailed in the agreement entitled "Establishing a Protocol to Govern Production of Documents Between the Commission of Inquiry into the Sponsorship Program and Advertising Activities and the Government of Canada." This document is included at the end of this Appendix.

### 1.2 Assessment of Privilege for Documents Produced by GOC

Special procedures were established to assess documents for privilege. It was agreed that counsel for the Government of Canada would be notified of any GOC documents selected by the Commission for production to the Parties prior to releasing them. This would enable GOC counsel to review the selected documents for privilege and to redact them if necessary.

## 2.0

### DOCUMENTS LIBRARIES AND CATALOGUES

Kroll assisted in developing and implementing a realistic plan to physically house and manage the documents received in response to the subpoenas and GOC call letters. Similarly, it was essential to devise a system to catalogue these documents, which in many cases, were housed in the various locations. These catalogues included basic information describing the documents, or groups of documents, as well as information required to manage, locate and in some cases target them for further review.

The following summarizes the principal document libraries and catalogues developed to organize, manage and locate pertinent documents.

#### 2.1 PWGSC Library and Document Catalogues

PWGSC produced the overwhelming majority of documents related to Sponsorship activities. These represented approximately 5,170 boxes which totaled over 20.7 million pages. An additional 1,904 boxes or 7.6 million



pages stored in various archives were located and sampled, however it was determined that they were not pertinent or responsive to the COI subpoenas or GOC call letters. A PWGSC Library in Gatineau, Quebec was established to organize, catalogue and store the documents produced by PWGSC and to enable the COI access to review and duplicate these documents as necessary.

PWGSC also put in place a number of teams to review and catalogue the contents of the Library and the results were captured in a series of detailed databases. The majority of the PWGSC Library holdings were described at the folder level and a few, which were deemed less pertinent, were described at the box level. The folder descriptions included objective information, such as:

- Collection name;
- Description of the document content;
- Reference number;
- Dates - period covered by the documents;
- Document type; and
- Contract files included the contract number, Communication Agency name and the file type (e.g., payment, procurement, program, etc.).

If applicable, PWGSC also provided additional "qualitative" information, such as:

- Sponsorship event(s) that documents related to;
- Communication Agencies that documents related to; and
- Key individuals (GOC and Communication Agencies) that documents related to.

The majority of the documents produced by the Privy Council Office ("PCO") and the Treasury Board Secretariat ("TBS") were also housed in the PWGSC Library. Similarly, all documents that PWGSC received from the Public Accounts Committee hearings were also kept in the Library.

## 2.2 Other Government Department Libraries and Document Catalogues

As indicated above, the majority of documents related to Sponsorship activities came from PWGSC and to a lesser extent, PCO and TBS. However, advertising activities touched virtually all government departments during the relevant period and the criteria to determine the pertinence of advertising-related documents was decidedly less clear. As such, it was determined that it would not be cost-effective or efficient to collect and consolidate all these documents into a single Library. Each government department was asked to develop a catalogue of advertising-related documents aimed at determining their potential relevance to the COI. The catalogues included basic information, such as document:

- Title and/or content description;
- Date;
- Communication Agency involved (if applicable); and
- Contact and reference code required to locate document.

Upon review of these catalogues, COI staff would make arrangements to locate and review the documents of interest and in turn to obtain copies as required.

## 2.3 Commission of Inquiry Library and Document Catalogues

The Commission of Inquiry Library had two branches, one in Montreal and one in Ottawa. The COI Library housed all non-GOC documents received in response to the subpoenas. These include documents from:

- Office of the Auditor General;
- Crown Corporations;
- Communication Agencies including their financial institutions and audit firms;
- Recipients of Sponsorship funds;
- RCMP documents; and
- Public Accounts Committee (GOC and non-GOC documents).

The COI Library also housed selected duplicates from the GOC Libraries. For example, all documents or document "collections" which were clearly central to the Inquiry were stored in the COI Libraries for ready access and review.

A detailed catalogue (in database format) describing these documents was developed and coded. Sample document information captured included:

- Document locator code - constructed in a way to provide a unique reference and address of the document location in the COI Library. The locator code was also designed to group documents from the same "collection source" together;
- Document collection source name;
- Library location (Montreal, Ottawa or both);
- Document type;
- Date received;
- Original source and reference number;
- Content title or description;
- Content date or range; and
- Flagged for capture into formal document management system.

As documents were received, organized, catalogued and stored in the COI Library, a list was distributed to COI staff so that they could locate those documents pertinent to their assignments.

### 3.0

## DOCUMENT REVIEW AND ANALYSIS

### 3.1 Document Filtering and Selection

The various document catalogues described above were used by counsel, forensic accountants and investigators to target and locate pertinent documents based on the COI terms of reference. As mentioned above, the full catalogues and/or additions to the catalogues were regularly provided to the COI team for their review. Also, extensive searches of the catalogues were completed to locate pertinent documents based primarily on the names of key individuals, Sponsorship events, Sponsorship or Advertising contract numbers and/or time periods of interest.

Once the documents were located and reviewed, those deemed pertinent for witness interviews, witness examination at the hearings and/or further analysis were flagged to be captured and managed in a dedicated "Document Management System".

If required documents were not found, additional requests or subpoenas were issued to obtain the necessary information required to conduct the Inquiry.

### 3.2 Document Capture Into Dedicated Document Management System

The "filtered" documents selected by COI as pertinent for the various witness interviews, investigations and/or the witness examinations were captured into a dedicated document management system. This was done to facilitate:

- The management of the overall process of GOC notification and document production for disclosure to Parties with standing; and
- The review and analysis of the key documents.

Kroll engaged the services of Supergravity, a leading manufacturer of document/case management and litigation support software, to develop, manage and host a secure COI document database. Supergravity was responsible to:

- Capture selected documents by scanning or converting existing digital documents into the required format;
- Convert document images into text to enable keyword text searches;
- Construct a fully integrated and indexed document database for advanced functionality;
- Train COI staff to use SUPERText Research PRO, which is the "analytical" interface to the document database, based on COI functional requirements;
- Provide real time, secure and remote access to 25 concurrent COI users via an internet connection and browser;
- Continually update and maintain the COI document database including full text indexing and backups; and
- Produce CDs containing selected documents for disclosure in a variety of digital formats to accommodate the varying needs and capabilities of the Parties with standing.

A number of tasks were required to prepare the "selected" documents for input into the document management system. They included:

- Cataloguing and organizing of documents;
- Preparing documents for scanning (removing staples, clips, etc.);
- Identifying document groups, e.g. attachments;
- Inserting and coding separator sheets; and
- Organizing and packaging documents for shipping.

Once the selected documents were captured into the SUPERText document database, they were readily available to all COI team members for review and analysis.

### 3.3 Document Analysis and Coding

As selected documents were captured into the SUPERText document database, each was coded with a document collection source name, a title or a description of the content and, where possible, a date.

The document collection source name was used as the organizational framework of the document database which facilitated the navigation or browsing of documents by COI team members. Similarly, documents could be located by performing text string searches. Again, such searches could focus on the names of key individuals, Sponsorship events and/ or contract numbers. Counsel, accountants and investigators focused on identifying and summarizing facts related to the broad themes of:

- Creation and/or funding of the Sponsorship program;
- Selection of communication and advertising agencies;
- Management of Sponsorship Program and advertising activities by government officials at all levels; and
- Receipt and use of any funds or commissions disbursed in connection with the sponsorship program, etc.

In many cases, the document reviewer's comments or findings were coded into the document management database for the benefit of other COI team members.

### 3.4 Document Production and Disclosure for Hearings

The disclosure of "pertinent" documents for the examination of witnesses involved a comprehensive and elaborate process. Some of the key steps included:

### 3.4.1 Document Coding

The coding of documents to include the collection source name, document title or description and document date was required to produce an index of the documents selected for production and disclosure to the Parties with standing.

### 3.4.2 GOC Notification

As discussed in section 1.2, COI agreed to "notify" counsel for the Government of Canada of any GOC documents selected by the Commission for production to the Parties prior to releasing them. This would enable GOC counsel to review the selected documents for privilege and to redact them if necessary.

This process needed to be carefully documented and monitored to ensure an efficient and timely process synchronized to the schedule of witness examinations and to minimize inappropriate disclosures. Tracking procedures and schedules were developed and implemented to manage this process.

### 3.4.3 Document Production and Disclosure

All documents which COI counsel relied on to examine witnesses during the hearings had to be disclosed to the Parties with standing in advance of the actual examinations. In addition, it was decided that key document collections central to the Inquiry would be produced in their entirety regardless of whether all the documents would be relied upon during the hearings.

The documents produced and disclosed to the Parties with standing were provided in two digital formats. The initial format consisted of a "lite version" of the SUPERText: Research PRO software called "SUPERText: BASIC". This approach consisted of bundling fully-indexed and organized digital documents on CDs which enabled the recipients to search and locate files of interest to review and/or print without any training and/or technical support. This was the "lowest common denominator" solution as each CD was a stand-alone document database that works on virtually all computer configurations. This was especially important for the small law firms which

had limited IT resources including hardware and technical support. The limitation of this approach was that the searches and analysis were confined to one CD at a time.

Following a review of decisions in other cases where a very large number of documents were disclosed, COI counsel decided to provide all Parties with standing the same tool that the COI employed to the review of its documents. As such, each Party with standing was provided with one SUPERText Research PRO license and the instructions and technical support to build one integrated document database. The document database needed to be continually updated as each new set of documents was produced and disclosed.

Therefore each set of disclosure documents was provided in the SUPERText: BASIC format as well as the SUPERText Research PRO format.

This process also needed to be carefully documented and monitored to ensure an efficient and timely process synchronized to the schedule of witness examinations. Again tracking procedures and schedules were developed and implemented to manage this process.

4.0  
COI UNIVERSE OF DOCUMENTS - SUMMARY METRICS

COI Universe of Documents – Summary Metrics				
Document Libraries	Documents Received and Catalogued		Number of Pages Captured in SUPERText Document Database	Number of Pages from SUPERText Disclosed to Parties with Standing
	Number of Boxes	Number of Pages		
PWGSC	5,170	20,680,000	559,411	480,789
Other Government Departments	623	2,492,000		
Commission of Inquiry (COI)	1,275	5,100,000		
TOTAL	7,068	28,272,000		

Notes

1. Table does not include an additional 1,904 boxes or 7.6 million pages stored in various archives which were located and sampled and determined as not pertinent or responsive to the COI subpoenas or GOC call letters
2. Table above does not include the 258 CDs received from non-PWGSC sources





### Establishment of Document Library

- I. The Government of Canada will establish a Library ("Library") in accordance with the conditions set out in the present Agreement, into which it will place documents it produces to the Commission. The costs of establishing and maintaining the Library as described herein shall be borne by the Government of Canada.

### Document Production

2. Documents will be deemed to have been produced by the Government of Canada to the Commission upon receipt by the Commission of a written notice identifying with reasonable precision the document(s) produced and confirming that they have been filed in the Library, or have been delivered directly to the Commission at its premises in Montreal or at such other location as the Commission may designate from time to time.

### Establishing and maintaining a Library database

3. The Government of Canada shall be responsible for indexing documents, at the most detailed level reasonably possible in the circumstances, as they are placed in the Library and for maintaining an up-to-date database identifying documents produced to the Commission and their location within the Library.
4. The Library database shall contain minimally the following information, unless it cannot be determined:
  - the documents' location in the Library;
  - the source of the documents, with the greatest precision possible;
  - the persons responsible for the documents when the documents were created and when they were placed in the Library; and
  - document titles and dates.

5. The Government of Canada shall designate a manager responsible for the operations of the Library. In addition, the Government of Canada will designate an individual responsible for establishing and keeping the said database current.
6. The Commission shall have access to the database upon request. As well, the updated database shall be provided to the Commission at regular intervals or upon the Commission's request.

#### Ownership of documents

7. Documents in the Library shall remain the property of the Government of Canada. However, access to the Library shall be strictly limited in accordance with this Agreement and no document may be removed from the Library except in accordance with this Agreement.

#### Location of Library

8. The Library shall be located in the National Capital Region, and more specifically at Place du Portage, Phase III, 9C2, Gatineau, Québec.

#### Security

9. The Government of Canada shall be responsible for security of the Library and related premises. Security arrangements are set out in Annex A to this Agreement.

#### Library premises and the content

10. The Library shall be configured to provide ready access to documents stored therein.
11. The Library shall be equipped with one or more photocopy machines on the premises.

12. The Library shall contain a closed working space suitable for use by Commission staff and available to Commission staff upon demand.

#### Access to Library by the Commission

13. The Library shall be accessible to Commission staff, representatives, experts or other persons it may designate, during normal working hours. Upon 24-hours notice, or 36-hours notice for week-end access, the Government of Canada shall arrange for the Library to be accessible to the Commission outside normal working hours, seven days a week, twenty-four hours a day.
14. The Commission is entitled to request and receive copies of any document in the Library, as set out below.

#### Access to the Library by the Government of Canada

15. Authorized government employees shall be entitled to access the Library for the purpose of responding to access to information requests, and other operational requirements which are deemed reasonable and justified.
16. Access to the Library shall be granted to Carolyn Kobernick and Mtre Sylvain Lussier, Counsels to the Government of Canada, and government employees designated by them for purposes of Commission-related work.
17. Access shall also be provided to Mtre André Gauthier, Special Counsel for Financial Recovery, his staff and government employees designated by him for purposes of his inquiry.

#### Access by third parties

18. Access may be granted to authorized persons for purposes of police investigations.

### Access by other persons

19. Other persons may be granted access to the Library with the consent of the Commission in response to a written request by the Government of Canada.

### Copying Documents

20. Any person entitled to access the Library is entitled to make copies of the Library documents on the Library premises, subject to rules that the Government of Canada may wish to impose. However, the Commission's access to the documents and its right to obtain copies upon demand may not be restricted except as may be reasonably required to protect solicitor-client privilege or privileges under section 39 of the Canada Evidence Act.
21. The Government of Canada shall enter into a contract with a suitable firm, with appropriate security clearance, specializing in document reproduction ("**Copying Contract**"). The Copying Contract shall stipulate terms under which the designated firm ("**Copy Service Provider**") will copy documents located in the Library. The Contract shall include a confidentiality undertaking. The terms of the Copying Contract shall be subject to the prior approval of the Commission.
22. The Copying Contract shall stipulate that the Copy Service Provider shall be responsible for receiving documents to be copied and for their physical return to the Library or to authorized Library staff, in the same order and organization as when they were received.
23. Documents may only be removed from the Library for purposes of reproduction, at the request of the Manager of the Library or a person authorized by him or her for that purpose. The physical removal of the documents may only be done by the Copy Service Provider, in accordance with the terms of the Copying Contract, or by an employee of the Library designated by the Manager of the Library or his/her representative.

24. Any person entitled to access the Library who wishes to obtain copies of documents shall request the copies from the Manager of the Library who shall arrange for them to be copied on site or to be made by the Copy Service Provider.
25. No document may be removed from the Library without prior notice to the Commission. The Manager of the Library will endeavor to provide a minimum of 24-hours notice. The Commission may object to the timing of a document's removal if it anticipates that its proposed removal might interfere with the Commission's work.

Copies requested by the Commission

26. Where the Commission requests copies of documents, the Government of Canada will be responsible for promptly organizing their copying. The copies will be delivered to the Commission's premises in Montreal unless the Commission indicates another location for delivery.
27. Each page of the copy of the document shall bear a unique page number in accordance with an agreed pagination protocol. Should the Government of Canada choose to have the documents scanned, the scanned version shall be provided to the Commission in addition to the paper copies.
28. Unless scanned versions of the documents are also provided, the paper copies of documents shall be delivered to the Commission unstapled, with separators clearly separating document and with bundles (*liasses*) appropriately indicated.

Document tracking

29. The Government of Canada shall establish and implement, to the Commission's satisfaction, a system for documenting the removal of documents from the Library for copying and their return. A permanent record must be maintained of the documents removed,

the date and time of their removal and the date and time of their return, the name of the person(s) requesting copies and their affiliation, and the identity of the person(s) physically removing the documents.

Communication between Commission and the Government of Canada

30. All formal communication between the Commission and the Government of Canada regarding document production shall be by letter between the persons indicated below, unless either party advises of the change of the person responsible for the Communication.

31. Communication to the Commission shall be addressed to:

M<sup>r</sup> Gregory B. Bordan  
**Commission of Inquiry into the Sponsorship Program  
and Advertising Activities**  
Guy-Favreau Complex  
200 René-Lévesque Blvd. West  
East Tower, Suite 608  
Montreal, Quebec, H2Z 1X4  
Fax: (514) 283-8138

Communication to the Government of Canada shall be addressed to:

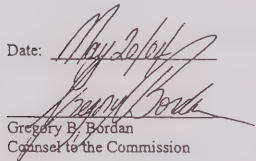
M<sup>r</sup> André Lespérance  
**Department of Justice**  
Guy-Favreau Complex  
200 René-Lévesque Blvd. West  
East Tower, 9th Floor  
Montreal, Quebec, H2Z 1X4  
Fax: (514) 283-3856

32. This agreement can be modified in writing with the consent of both parties.

SIGNED:

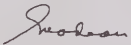
On behalf of the Commission of  
Inquiry:

Date:

  
Gregory B. Borden  
Counsel to the Commission

On behalf of the Government of  
Canada:

Date:

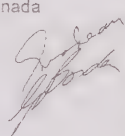
  
Elisabeth Nadeau  
Assistant Deputy Minister, Public  
Works and Government Services  
Inquiry Liaison Office



PORTAGE III  
PHYSICAL SECURITY MEASURES FOR SPONSORSHIP INQUIRY

These measures were developed in accordance with the Government of Canada Security Policy, Chapter 2-2, Physical Security Standards.

Attachment A



1B3. Scanning Centre

- 3 passive infrared motion detectors
- Door contact for local alarm
- LCD keypad
- Medeco key system not keyed to master

15A2. Offices

- 3 passive infrared motion detectors
- LCD keypad
- Proximity card reader with electric strike
- Door contact for local alarm
- Medeco key system not keyed to master

Tower C. Basement Records Centre:

- 7 passive infrared motion detectors
- Recessed door contacts for local alarm kit
- Proximity card reader with electric strike
- Intercom station ( 1 master and 2 substations)
- Door release (request to exit system)
- 4 dome mount vandal proof cameras
- Monitor with dedicated hard drive
- Chain link fence with sliding gate
- Combination lock

9C2. Records Management Reading Centre:

- 4 passive infrared motion detectors
- Door contacts for local alarm
- Proximity card reader with electric strike
- LCD Keypad
- Medeco key system not keyed to master
- Cypher locks on both doors to photocopy area
- Dutch door system between copy/file centre and rest of space
- Perimeter wall construction is slab to slab wire mesh with slab to T-bar drywall partition
- Meeting room is slab to slab drywall construction
- Doors to be equipped with non-removable hinge pins

Protected "B"



E

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APPENDIX E

SAMPLE LETTER SENT TO  
SPONSORSHIP FUND RECIPIENTS

Kroll Lindquist Avey

August 17, 2004

PRIVATE & CONFIDENTIAL

Following the tabling of a report of the Auditor General of Canada before Parliament on February 10, 2004, the Government of Canada appointed by Order in Council on February 19, 2004 the Gomery Commission of Inquiry (GCOI or the Commission) to inquire into the Sponsorship Program and Advertising Activities of the Government of Canada.

Kroll Lindquist Avey has been appointed by the GCOI to assist the Commission with its investigation of the circumstances under which sponsorship and/or advertising agreements were negotiated, with whom, the amounts effectively received and the role played by the communication agencies.

Government of Canada records indicate that your organization may have received funds under the Sponsorship Program as noted on the attached schedule. As such, Kroll may wish to meet with you and other appropriate representatives of the sponsored organization to discuss the circumstances of the sponsored event or events and to gather any documentation in your possession, in paper or electronic form, which may be related to the sponsorship including any document in connection with any agreement which you may have entered into covering the payment of commissions or other expenses by your organization and proof of payment. In the meantime, please retain, in safe keeping, all such documentation.

Page 2

Kroll Lindquist Avey

Also, we would like you to complete the enclosed questionnaire and return it in the self-addressed envelope by September 1, 2004 at the latest. Please note that an individual questionnaire should be answered for each separate sponsorship event. Your assistance in providing the COI with this information is appreciated.

If you require any further information or clarification, please contact the undersigned by telephone at 1-866-387-4701 or by email at gvadeboncoeur@krollworldwide.com.

Yours very truly,

KROLL LINDQUIST AVEY CO.



Per: Robert M. Macdonald, CA•IFA  
Kroll Lindquist Avey  
Investigator to the GCOI



Guillaume Vadeboncoeur, CA  
Kroll Lindquist Avey  
Investigator to the GCOI

:sm  
Encl.

c. Bernard Roy, Lead Commission Counsel

**Request Concerning the Sponsorship Program**

*(Please complete a questionnaire for each approved sponsorship)*

**Please provide the following information:**

Name of event: \_\_\_\_\_

Agency name: \_\_\_\_\_

Event location: \_\_\_\_\_

Date of event: \_\_\_\_\_

**Contact Person:**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

*Street*

*City, Province, Postal code*

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

Email: \_\_\_\_\_ Other: \_\_\_\_\_

**Please provide a brief description of the event**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**When did you first learn about the Sponsorship Program?**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**How did you apply to the Sponsorship program? (i.e., by letter or verbally)**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Please provide the following information regarding sponsorship monies received:**

Total monies received \_\_\_\_\_

Amount of monies used for:

- Commissions and other expenses incurred to acquire sponsorship monies \_\_\_\_\_

- Other uses \_\_\_\_\_

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Date*

**Thank you for taking the time to answer this questionnaire.**

F

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APPENDIX F

## NATURE OF SPONSORSHIP EVENTS

A detailed listing of the events in each category is attached as Schedule 4.

### I.O

#### GROUPE POLYGONE AND EXPOUR - \$ 44.8 MILLION

Le Groupe Polygone - Éditeurs Inc. ("Groupe Polygone") is a company operating in the fields of editing and publishing of magazines and other periodicals. Expour Inc. and Expour 2000 Inc. (jointly named "Expour") are two companies operating in the organization of expositions. These companies are owned by Mr. Luc Lemay and received SPS funds, primarily managed by Groupaction.

With contracts valued at \$44.87 million, Mr. L. Lemay, through Groupe Polygone and Expour, is the largest single recipient of SPS contracts.

A summary of contracted amounts sorted by type of event for which Expour was the sponsoree is disclosed in the following Table:

Table 1: Contracted Amounts by Event for Which Expour was the Sponsoree (\$ millions)

Event	Sponsorship	Agency Commission	Production	Total
Radio Capsules	13.31	1.97	0.66	15.94
Salons	11.09	1.61	0.71	13.41
Magazines	3.91	0.56	0.97	5.44
Almanach du Peuple	1.97	0.28	0.65	2.90
Journal de Montréal et				
Journal de Québec	1.65	0.25	0.99	2.89
Soirées de films de pêches	1.75	0.24	-	1.99
Production and Planning	-	-	1.75	1.75
Télévision Communautaire	0.48	0.07	-	0.55
Total	\$34.16	\$4.98	\$5.73	\$44.87

Table 1a: Contracted Amounts by Event for Which Expour was the Sponsoree

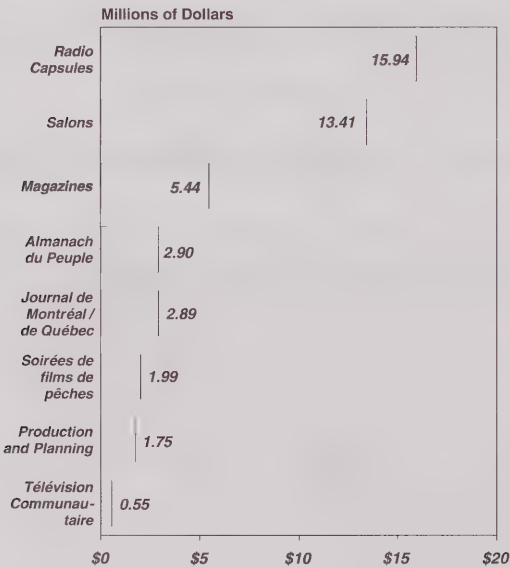
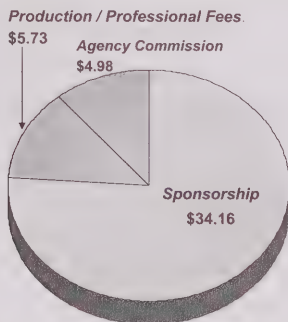




Table 1b: Contracted Amounts by Event for Which Expour was the Sponsoree



From the contracts related to the above-noted events, an amount of \$2.86 million has not been paid, to this day, by PWGSC.

#### 1.1 Radio Capsules - \$15.94 million

This amount includes 17 events spanning the years 1996-97 to 2001-02. SPS contracts provided funding for a series of radio message campaigns providing tips on various topics, such as hunting, fishing and the outdoors, the economy, health, environment, agriculture and food, security and housing. In addition, two of these campaigns were related to weather reports and road and traffic reports. Each message was to end with a "Government of Canada" mention. The radio messages were aired on about 80 radio stations in rural Québec.

The sponsorship component of these contracts was paid to Groupe Polygone. In addition, the production component of these contracts was mostly paid to Groupe Polygone who was in charge of the editing, production and airing of the radio messages.

Appendix H provides the text of a few radio capsules sponsored by the GOC.

From the contracts related to these radio capsules, an amount of \$2.06 million has not been paid by PWGSC.

## 1.2 Salons - \$13.41 million

This amount includes 31 events spanning the years 1996-97 to 2001-02. The stated purpose of these events was to provide funding for hunting, fishing and outdoors shows or salons, and a few agriculture and First Nations-related shows or salons.

The first contracts, issued to Groupe Everest in 1997, related to salons held in Montréal (1997 and 1998) and in Québec City (1998). The sponsorship component of these contracts was \$1.95 million. In April 1998, Groupaction became the communication agency for the salons. The sponsorship component of contracts issued to Groupaction was \$11.47 million.

The GOC obtained visibility in these events by way of on-site banners, signs and posters, presence of the Canada wordmark in printed advertising and a "Government of Canada" mention in radio advertising.

The sponsorship payments were made to Expour. In addition, the production budgets allocated to these events were mostly paid to Expour who was the promoter of most, but not all, events.

During the 1999-2000 year, two events were cancelled. Expour had already received 100% of the SPS funds, but no refund was made to PWGSC. Instead, Expour provided visibility in smaller regional shows and salons for at least one of the two cancelled events.

From the contracts related to the 2001-2002 salons, an amount of \$805,000 has not been paid by PWGSC.

In 2002-03, some of the salons had received confirmation of SPS funds, at amounts lower than any previous years. These confirmed SPS contracts were cancelled in July 2002 by Communication Canada and no funds were paid to Expour for these salons in 2002-03.

### 1.3 Magazines - \$5.44 million

This amount includes six events spanning the years 1997-98 to 1999-00. The stated purpose of these events was to provide visibility to the GOC in magazines edited, published or managed by Groupe Polygone. The visibility was obtained by way of advertising and articles in eleven different magazines and publications.

The sponsorship payments were made to Groupe Polygone. In addition, the production budgets allocated to these events were mostly paid to Groupe Polygone who was in charge of the editing, production and publication of the magazines.

Appendix I includes examples of advertising and articles published by Groupe Polygone and sponsored by the GOC.

### 1.4 Almanach du Peuple - \$2.90 million

This amount includes five events spanning the years 1997-98 to 2001-02. The stated purpose of these events was to provide visibility to the GOC in the *Almanach du Peuple*, an annual publication edited and produced by Groupe Polygone. The visibility was represented by over 100 pages in the almanac devoted exclusively to GOC visibility, including a listing of the federal ministers and party leaders, and other information related to the federal government.

The sponsorship payments were made to Groupe Polygone. In addition, the production budgets allocated to these events were mostly paid to Groupe Polygone who was in charge of the editing, production and publication of the almanac.

Appendix J includes example visibility sponsored by the GOC.

## 1.5 Journal de Montréal / de Québec - \$2.89 million

This amount relates to one event in 1998-99. This event was to provide visibility to the GOC in series of posters inserted and distributed in Journal de Montréal and Journal de Québec. A series of informational posters were issued for the World of Formula 1, Birds of Canada and Mammals of Canada.

The sponsorship payments were made to Groupe Polygone. In addition, the production budgets allocated to these posters were mostly paid to Groupe Polygone who was in charge of the editing, production and publication of the posters.

Appendix K includes an example of the posters sponsored by the GOC.

## 1.6 Soirées de films de pêche - \$1.99 million

This amount includes three events spanning the years 1997-98 to 2000-01. The stated purpose of these contracts was to provide funding for gatherings in rural Québec and a few towns in New Brunswick where fishing and hunting movies were shown to a paying audience. The GOC obtained visibility in these events by way of on-site banners, signs and posters, presence of the Canada wordmark in printed advertising and a "Government of Canada" mention in radio advertising.

The sponsorship payments were made to Groupe Polygone. There was no budget allocated for production in these events, other than the amounts paid under the general "production and planning" contracts, as described in Section 1.7 of this report.

### 1.7 Production and Planning - \$1.75 million

This amount includes two contracts spanning the years 1999-2000 and 2000-01. The stated purpose of this funding was to provide production monies to fund production related expenses such as the production of radio ads, banners and signs and other, for the other events associated with Groupe Polygone and Expour, as described in Sections 1.2 - 1.4 and Section 1.6 of this report.

Of the \$1.75 million paid by PWGSC, Groupe Polygone received \$977,350 and Expour received \$430,150, for a total of \$1.4 million.

Section 5.3 of this report provides a detailed financial analysis of the funds received by Groupe Polygone and Expour, costs it incurred, and profits made resulting from SPS monies it received.

## 2.0

### AMATEUR SPORT - \$ 42.07 MILLION

Our review of SPS contracts managed by agencies relating to Amateur Sport disclosed that, in summary contracts provided for payments as follows:

Table 2: SPS Contracts Managed by Agencies - Amateur Sport  
(\$ millions)

Event	Media Purchases	Sponsorship	Agency Commission	Production	Total
Amateur Games	0.55	11.12	1.66	4.30	17.63
Jeux de la Francophonie	-	3.60	0.54	2.39	6.53
Skiing	-	3.18	0.46	1.33	4.97
Hockey	-	2.28	0.33	0.87	3.48
Horse Shows	-	1.40	0.20	0.70	2.30
Tennis	-	1.31	0.20	0.37	1.88
Auto Racing	-	1.10	0.16	0.52	1.78
Skating	-	0.97	0.14	0.04	1.15
Other	-	1.80	0.26	0.29	2.35
<b>Total</b>	<b>\$0.55</b>	<b>\$26.76</b>	<b>\$3.95</b>	<b>\$10.81</b>	<b>\$42.07</b>

Table 2a: SPS Contracts Managed by Agencies - Amateur Sport

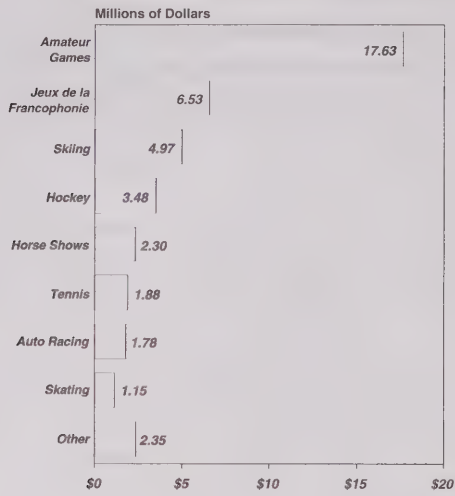
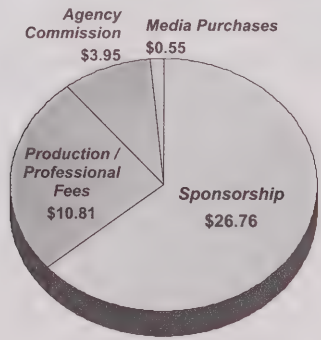


Table 2b: SPS Contracts Managed by Agencies - Amateur Sports



2.1 Amateur Games - \$17.63 million

The \$17.63 million of SPS funds noted above for the Amateur Games were funded from 210 contracts. Schedule 4 sets out the detail of the individual contracts.

We note that these events, which we have categorized as amateur sports, cover a wide range of sporting activities which took place in many communities across Canada. These events received SPS funds ranging from several thousand for small events to over a million dollars for other events.

For example in the 1999-00 fiscal year \$2.3 million was allocated to fund costs for the Pan Am Games, the Canada Games in Brandon, Manitoba was allocated funds totaling \$937,710, the Jeux de Québec was allocated \$1.2 million, and in the 1998-99 fiscal year the Canada Games in Cornerbrook was allocated \$1.53 million.

We note the Pan American Games were held in Winnipeg during July and August 1999. CCSB provided a sponsorship contract in a total amount of \$2.3 million for this event, managed by Compass Communication. This amount included \$634,000 in direct sponsorship to the Pan American Games and \$76,080 in related agency commission. The remaining portion of the budget (\$1.6 million) was represented by production costs associated with various activities including:

- a) Volunteer support program - providing shirts to all participating volunteers;
- b) Athlete bags - providing knapsacks to all participating athletes; and
- c) Canada Place Pavillion - a pavilion located at The Forks, the centerpiece of daily activities at the Pan American Games, with the stories of Canadians told using a variety of traditional and non-traditional exhibit media.

Schedule 4 provides the contract reference information of the other events we have included in this amateur sport category.

2.2 Jeux de la Francophonie - \$6.53 million

Our review of the SPS contracts relating to the Jeux de la Francophonie disclosed a total of ten PWGSC contracts for a total value of \$6.53 million. Schedule 4 sets out the detail of the individuals contracts. The Jeux de la Francophonie were held in Ottawa-Hull from July 14 to 24, 2001 and attended by approximately 2,300 athletes. A Memorandum of Agreement lists 33 different initiatives making up the visibility granted to the GOC for their sponsorship of the event in various ways throughout the Ottawa-Hull region.

Further support for the Jeux de la Francophonie and the World Athletic Games was contracted by the GOC through a PWGSC advertising contract with Compass in the amount of \$1.66 million.

3.0

PROFESSIONAL SPORT - \$ 39.36 MILLION

Our review of SPS contracts managed by agencies relating to professional sports teams disclosed that, in summary between 1996 and 2003, contracts provided for payments to professional sports events and teams as follows:

Table 3: SPS Contracts Managed by Agencies - Professional Sport (\$ millions)

Event	Sponsorship	Agency Commission	Production/ Professional Fees	Total
Auto Racing	8.38	1.23	4.07	13.68
Hockey	6.03	0.88	3.57	10.48
Baseball	4.80	0.70	2.38	7.88
Football	3.55	0.53	1.02	5.10
Soccer	1.07	0.15	0.10	1.32
Other	<u>0.68</u>	<u>0.10</u>	<u>0.12</u>	<u>0.90</u>
Total	<u>\$24.51</u>	<u>\$3.59</u>	<u>\$11.26</u>	<u>\$39.36</u>



Table 3a: SPS Contracts Managed by Agencies - Professional Sport

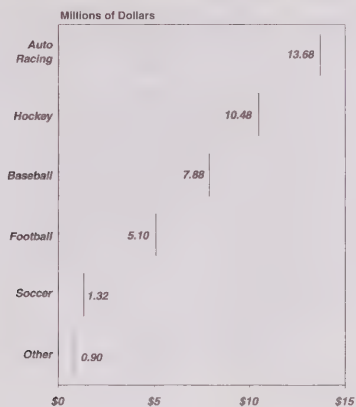
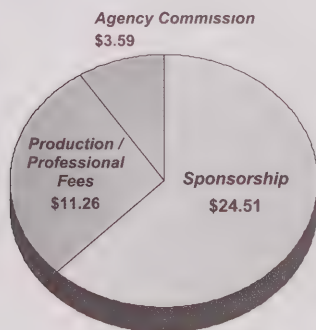


Table 3b: SPS Contracts Managed by Agencies - Professional Sports



3.1 Auto Racing - \$13.68 million

The particular events receiving the \$13.68 million included the following:

Table 4: SPS Contracts Managed by Agencies - Auto Racing  
(\$ millions)

Event	Sponsorship	Agency Commission	Production/ Professional Fees	Total
Grand Prix du Canada	3.69	0.55	1.17	5.41
Molson Indy - Toronto	1.55	0.22	0.82	2.59
Molson Indy - Vancouver	1.29	0.19	0.88	2.36
CASCAR	1.00	0.14	0.59	1.73
Grand Prix de Trois-Rivières	0.71	0.11	0.51	1.33
Other	0.14	0.02	0.10	0.26
Total	\$8.38	\$1.23	\$4.07	\$13.68

Table 4a: SPS Contracts Managed by Agencies - Auto Racing

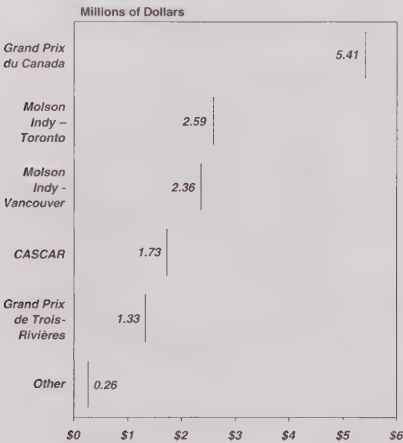
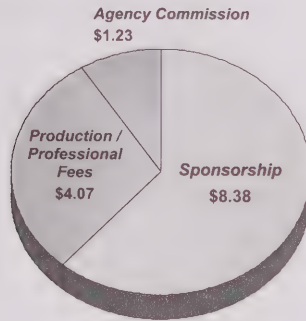


Table 4b: SPS Contracts Managed by Agencies - Auto Racing



### 3.2 Grand Prix du Canada - \$5.41 million

We note that the Grand Prix du Canada included 13 contracts for the annual racing event taking place in Montréal. Schedule 4 provides a listing of these contracts. Communication agencies involved with these events included Lafleur, Groupaction and Armada.

In return for the sponsorship funds, available documents and discussions with representatives of the Grand Prix du Canada indicate that the GOC obtained visibility by way of on-site banners and signs, incrustation of the wordmark on closed-circuit television, and advertising in the official race program. The RCMP was also present on the circuit in 1998, the year of their 125th anniversary, for a demonstration with their horses prior to the race.

### 3.3 Molson Indy - Toronto and Vancouver - \$4.95 million

We note that the Molson Indy included contracts for the annual racing events taking place in Toronto and Vancouver. Schedule 4 provides a listing of these contracts. Communication agencies involved with these events included Lafleur, Groupaction/Gosselin and Armada.

Similar to the Grand Prix du Canada, in return for the sponsorship funds the GOC obtained visibility by way of on-site banners and signs and advertising in the official race program.

3.4 Hockey - \$10.48 million

The professional sports teams and leagues receiving the \$10.48 million included the following:

Table 5: SPS Contracts Managed by Agencies - Hockey  
(\$ millions)

Event	Sponsorship	Agency Commission	Production/ Professional Fees	Total
Montréal Canadiens	2.25	0.33	1.54	4.12
NHL	2.79	0.42	0.43	3.64
Ottawa Senators	0.77	0.10	1.06	1.93
Rafales de Québec	0.20	0.03	0.36	0.59
Other	0.02	-	0.18	0.20
Total	\$6.03	\$0.88	\$3.57	\$10.48

Table 5a: SPS Contracts Managed by Agencies - Hockey

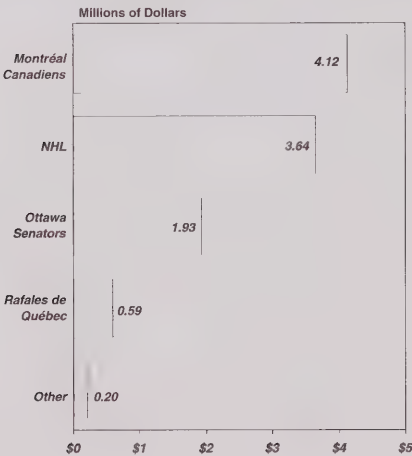
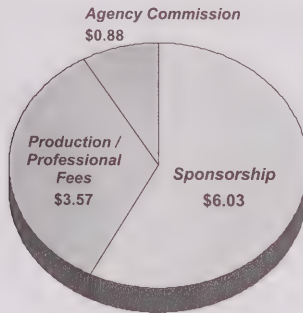


Table 5b: SPS Contracts Managed by Agencies - Hockey



### 3.5 Montréal Canadiens - \$4.12 million

The \$4.12 million noted above for the Montréal Canadiens was funded from eleven contracts. Schedule 4 provides a list of these contracts. As noted on Schedule 4, five of these contracts totaling \$2.8 million were with Lafleur Communication and covered fiscal years 1995-96 to 1998-99. Documents we reviewed indicate the visibility received by the GOC during 1997-98 included advertising in the *Journal de Montréal* and promotional items such as T-shirts.

### 3.6 NHL - \$3.64 million

The \$3.64 million noted above for the NHL was funded from seven contracts. Schedule 4 provides a listing of these contracts.

We note that three of these contracts, covering the 1999-2000, 2000-01 and 2001-02 NHL seasons provided sponsorship funds of \$900,000, \$905,000 and \$905,000, which were paid evenly to each of the six Canadian NHL teams.

Documents we reviewed for the 1999-2000 and 2000-01 contracts indicate that each of the six Canadian NHL teams provided visibility for the Canada wordmark. This visibility included a variety of exposures for the Canada wordmark in hockey arenas during the NHL season.

3.7 Baseball - \$7.88 million

The professional sports teams receiving the \$7.88 million included the following:

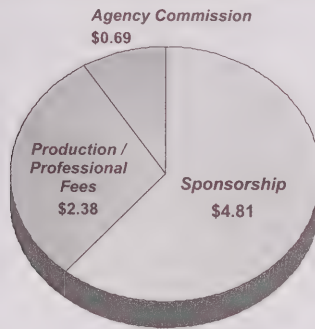
Table 6: SPS Contracts Managed by Agencies - Baseball  
(\$ millions)

Event	Sponsorship	Agency Commission	Production/ Professional Fees	Total
Montréal Expos	3.33	0.48	2.26	6.07
Toronto Blue Jays	1.20	0.18	0.04	1.42
Other	0.28	0.03	0.08	0.39
Total	4.81	0.69	2.38	7.88

Table 6a: SPS Contracts Managed by Agencies - Baseball



Table 6b: SPS Contracts Managed by Agencies - Baseball



The \$6.07 million of sponsorship funds noted above for the Montréal Expos was funded from 13 contracts. Schedule 4 provides a listing of these contracts.

3.8 Football - \$5.1 million

The professional sports teams and leagues receiving the \$5.1 million included the following:

Table 7: SPS Contracts Managed by Agencies - Football  
(\$ millions)

Event	Sponsorship	Agency Commission	Production/ Professional Fees	Total
CFL	3.30	0.49	0.34	4.13
Montréal Allouettes	0.25	0.04	0.41	0.70
Ottawa Rough Riders	-	-	0.27	0.27
<b>Total</b>	<b><u>\$3.55</u></b>	<b><u>\$0.53</u></b>	<b><u>\$1.02</u></b>	<b><u>\$5.10</u></b>

Table 7a: SPS Contracts Managed by Agencies - Football

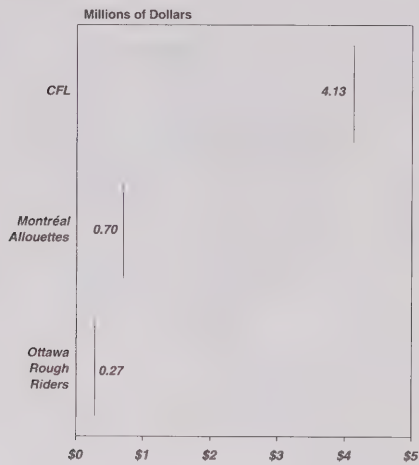
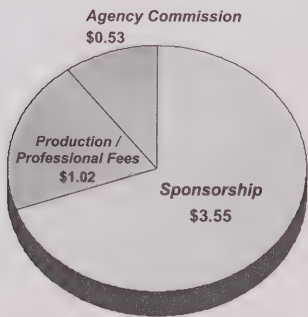


Table 7b: SPS Contracts Managed by Agencies - Football





## 3.9 CFL - \$4.13 million

The \$4.13 million of sponsorship funds noted above for the CFL were funded from 12 contracts. Schedule 4 sets out the detail of the individual contracts.

We note that three of these contracts, covering the 1999, 2000 and 2001 seasons, provided sponsorship funds of \$950,000 each year, a total of \$2.85 million, for the Canada wordmark exposure as follows:

- regular season: helmet stickers on all teams; and
- playoffs: helmet stickers, two on field colour templates, four sideline signs.

## 4.0

## ADVERTISING

Included in amounts to be paid from the SPS budgets were amounts contracted for advertising totaling \$29.18 million. This work was undertaken by 13 different agencies and related to wide variety of projects.

Table 8: SPS Contracts Managed by Agencies - Advertising  
(\$ millions)

Event	Media Placement	Sponsorship	Agency Commissions	Production/ Professional Fees	Total
1995-1996 Advertising	6.17	0.03	1.09	3.63	10.92
Nagano Olympics	4.20	-	-	1.75	5.95
Budget 1999	3.40	-	0.60	0.35	4.35
Community Information Newspaper Program	2.32	-	0.41	0.87	3.60
Revue FORCE	-	0.70	0.11	0.06	0.87
Ice Storm 1998	0.08	-	0.01	0.03	0.12
Other	<u>1.05</u>	<u>1.51</u>	<u>0.31</u>	<u>0.50</u>	<u>3.37</u>
<b>Total</b>	<b><u>\$17.22</u></b>	<b><u>\$2.24</u></b>	<b><u>\$2.53</u></b>	<b><u>\$7.19</u></b>	<b><u>\$29.18</u></b>

Table 8a: SPS Contracts Managed by Agencies - Advertising

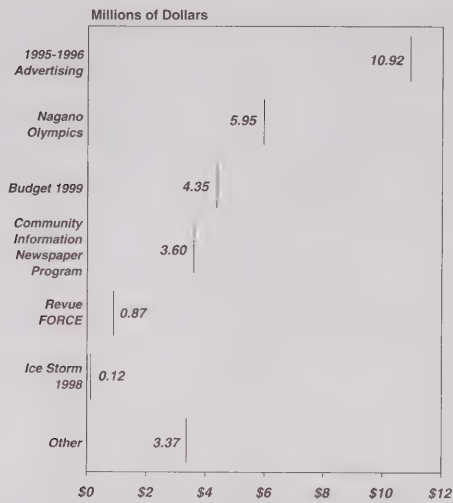
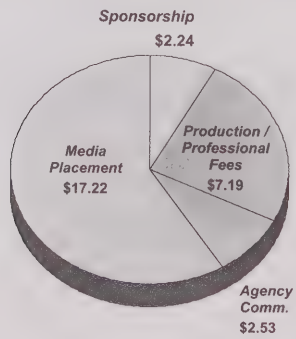


Table 8b: Advertising Contracts by Event Managed by Agencies



#### 4.1 1995-1996 Advertising - \$10.92 million

This group comprises 17 contracts with six agencies. There is little information available in the files of PWGSC related to these contracts beyond the information contained in the contracts themselves. These contracts covered the purchase of outdoor media to promote GOC programs, print advertising campaigns, the production and coordination of messages for advertising campaigns and the purchase of media time and space.

#### 4.2 Nagano Olympics - \$5.95 million

Groupaction was retained as the advertising agency responsible for the creation, execution and placement of television vignettes on behalf of the GOC. The contracted production budget was \$1.75 million. The vignettes were to feature various aspects of the build-up to Nagano. CBC/SRC the host broadcaster for the Olympics was a partner in the venture. The media placement budget was \$4.2 million. The objective of the initiative was to raise awareness of Canadian Olympic and Paralympic teams and increase viewership of the games.

#### 4.3 Budget 1999 - \$4.35 million

Vickers and Benson received a \$350,000 contract to prepare and distribute GOC advertising related to the 1999 Budget. The media placement cost totaling \$4.0 million was contracted to Média/I.D.A. Vision.

#### 4.4 Community Information Newspaper Program - \$3.60 million

This was a series of three ads placed in local newspapers during 1998-99. The production work associated with the program, totaling \$865,574 was contracted to Groupaction through four contracts set out on Schedule 4.

The Community Information program ads related to three initiatives, Youth and Learning, Health Lifestyles and the Year 2000. Ads promoting these three initiatives were placed in local and regional papers across the country and referred the reader to the 1-800-O-Canada telephone number.

Human Resources Development Canada transferred \$1.3 million to PWGSC to cover the cost of the first ad. Funding for the second ad totaling \$1.0 million was transferred to PWGSC by Health Canada. The third ad was funded by a transfer of \$1.4 million from Industry Canada.

## 5.0

### ATTRACTIONS CANADA - \$25.61 MILLION

A PWGSC Briefing note dated April 9, 2002 sets out the purpose of the Attractions Canada initiative.

"Put in place in April 1997, Attractions Canada is an information program intended to raise awareness of places of interest in the country (natural parks, historic sites, cultural events, etc.) Activities of the Attractions Canada program fit into the types of activities of the Sponsorship Program.

"Attractions Canada" is a registered trademark, property of the Government of Canada through the CIO (Canada Information Office) ( #0909219 of February 19, 1997)."

Further as noted in a Canada Information Office document dated June 1997.

"The CIO was announced on July 9, 1996 by the Prime Minister of Canada and reports to the Minister of Canadian Heritage with close ties to the Minister of Intergovernmental Affairs. It is important to note that the CIO is neither a department nor a central agency but a hybrid designed to deliver on its unique mandate which is different although complementary to that of other federal organizations.

The CIO is headed by an Executive Director, Roger Collet, who is a Governor-in-Council appointee. ...

The CIO was created with a mandate to:

inform Canadians about our country, each other, the modernization of the federation and the role of the Government of Canada in meeting the needs of Canadians through the delivery of programs and services."

Attractions Canada used various media and events to promote Canada including a dedicated website, radio, print, billboards and television advertisements, galas, promotional items, contests, and the sponsorship of various events.

Attached as Schedule 4 is a listing of 13 SPS contracts issued in relation to the Attractions Canada initiative. In fiscal 2002-03 an additional \$2.25 million was spent on Attractions Canada advertising funded from the CIO advertising budget.

This was a multi-year program which spent at least \$8.1 million between 1997 and 2001 on media placements promoting "places of interest" across Canada. A further \$12.3 million was paid for production costs which are summarized in the Table below.

Table 9: Attractions Canada - Breakdown of Production Costs'  
(\$000's)

Description	Internal Costs <sup>2</sup>			Total Internal Costs	Total External Costs	Total Costs
	Professional Fees	Agency Commission	Production Costs			
Media related production	\$383.5	\$334.5	\$554.9	\$1,273.0	\$1,413.9	\$2,686.8
Fixed Fee – "Structure Permanente"	1,150.0	-	-	1,150.0	-	1,150.0
Galas	303.2	38.7	95.2	435.1	318.1	753.3
Website	0.4	62.3	258.8	321.5	137.3	458.8
Serdy Video – "Le Gout de Chez Nous"	60.2	141.2	-	201.4	800.0	1,001.4
Millenium Events	197.4	-	-	197.4	-	197.4
Contests	105.5	38.0	2.1	145.6	360.9	506.5
Promotional items	0.2	31.8	18.2	50.2	162.2	212.4
Logo	44.2	0.2	1.2	45.5	-	45.5
Other invoices	<u>1,170.8</u>	<u>218.4</u>	<u>950.7</u>	<u>2,339.9</u>	<u>2,979.1</u>	<u>5,319.0</u>
Total	<u>\$3,415.3</u>	<u>\$863.2</u>	<u>\$1,881.1</u>	<u>\$6,159.6</u>	<u>\$6,171.5</u>	<u>\$12,331.2</u>

<sup>1</sup> Source: Groupe Everest Companies' and supplier invoices where available.

<sup>2</sup> Costs billed by or subcontracted to one of the Groupe Everest Companies and there was no third party subcontractor invoice noted.

6.0

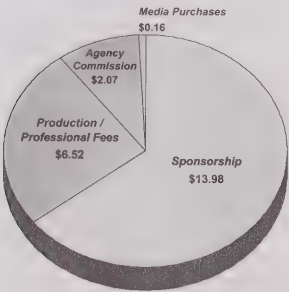
FAIRS, FESTIVALS AND CELEBRATIONS - \$22.79 MILLION

Our review of SPS contracts managed by agencies relating to Fairs, Festivals and Celebrations disclosed that, in summary contracts provided for payments as follows:

Table 10: SPS Contracts Managed by Agencies - Fairs, Festivals and Celebrations (\$ millions)

Event	Media Purchases	Sponsorship	Agency Commission	Production/ Professional Fees	Total
Fairs, Festivals & Celebrations					
Total	<u>\$0.16</u>	<u>\$13.98</u>	<u>\$2.07</u>	<u>\$6.54</u>	<u>\$22.75</u>

Table 10a: SPS Contracts Managed by Agencies - Fairs, Festivals and Celebrations



Like amateur sport, we note that the 1,110 events which we have categorized as Fairs, Festivals and Celebrations are a wide range of activities and events which took place in many communities across Canada. The GOC monies provided to these events ranged from relatively small amounts to hundreds of thousands for some events.

For the funds provided to the events, the GOC was to receive a variety of Canada wordmark exposure.

## 7.0

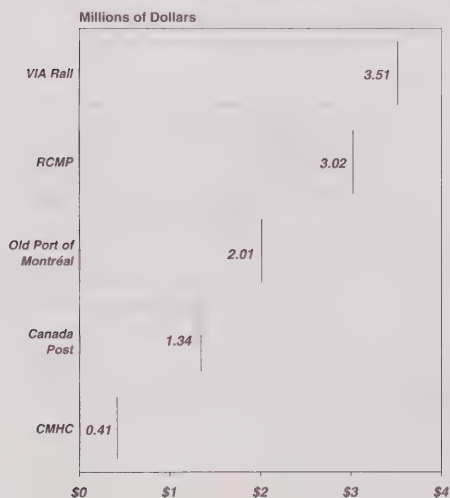
## CROWN CORPORATIONS AND AGENCIES - \$10.29 MILLION

Our review of SPS contracts managed by agencies relating to Crown Corporations and Agencies disclosed that, in summary, between 1994 and 2003 payments were made to Crown Corporations as follows:

Table 11: SPS Contracts Managed by Agencies -  
Crown Corporations and Agencies  
(\$ millions)

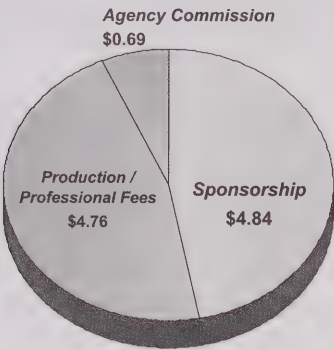
Event	Sponsorship	Agency Commission	Production/ Professional Fees	Total
VIA Rail	0.81	0.11	2.59	3.51
RCMP	1.70	0.24	1.08	3.02
Old Port of Montréal	1.50	0.23	0.28	2.01
Canada Post	0.83	0.11	0.41	1.34
CMHC	-	-	0.41	0.41
<b>Total</b>	<b>\$4.84</b>	<b>\$0.69</b>	<b>\$4.76</b>	<b>\$10.29</b>

Table 11a: SPS Contracts Managed by Agencies -  
Crown Corporations and Agencies



The funds received by Via Rail primarily related to visibility in Via Magazine and other on-board promotions. In 2000, when the magazine was cancelled, \$174,000 was used for Via Rail signs. The funds received by the RCMP were primarily for the RCMP's 125th Anniversary celebrations at RCMP headquarters and Québec Divisions.

Table 11b: SPS Contracts Managed by Agencies - Crown Corporations



Schedule 4 provides a listing of these contracts for each of the above noted Crown Corporations.

8.0

PROMOTIONAL ITEMS - \$9.29 MILLION

Our review of the SPS contracts relating to promotional items disclosed a total of 18 contracts with a total contract value of \$9.29 million.

Under the promotional item contracts, various items, usually with a Canada wordmark, were purchased by the communication agencies on behalf of PWGSC. Articles purchased include shirts, watches, flag boxes, money clips, umbrellas, and golf balls. These items were not necessarily purchased based on a specified need, but rather as an inventory for future use for sponsorship events and other events.



## 9.0

## CHINA SERIES - \$8.85 MILLION

Our review of the SPS contracts relating to the China Series - Canada Coast to Coast - disclosed a total of five PWGSC contracts beginning in July 1996 and ending in April 1999 for a total contract value of \$8.85 million. In addition, our review disclosed seven other contracts funded by other GOC departments with contract values of \$850,000 and one agreement funded by Aerospace Training Canada International totaling \$0.28 million.

Exhibit P-415 page 2 provides further details of these contracts and shows the total dollar value of the known contracts for the China Series to be \$9.98 million.

The China Series encompassed 26 one-half hour episodes to be broadcast multiple times on China Central Television (CCTV). The programs used a cross-Canada trip as a backdrop to teach English to a Chinese audience, estimated to be more than 60 million viewers. The Canadian sites featured Canadian technology, infrastructure and culture. The host of each episode was Mr. Mark Rosewell, known in China as "Dashan," a star of Chinese television. The series was supported by one million copies of a companion English language booklet.

## 10.0

## SERVICES TO PWGSC - \$3.2 MILLION

Included in this category are contracts which appeared to be related to agencies undertaking work that was not directly related to an event. Schedule 4 to this report provides details of the contracts in each of the groups.

## 10.1 Strategic Planning - \$1.85 million

This group comprises 21 contracts issued to 15 different agencies between 1994-95 and 2000-01. It includes consultation in connection with the restructuring of APORS, advertising concept development, evaluation of the effectiveness of advertising programs and strategic plans in relation to visibility.

10.2 Agency Selection - \$590,000

Between 1994-95 and 1996-97 eleven contracts were issued in relation to the agency selection process including contracts issued to industry experts who were part of the selection panel and amounts paid for media purchases in relation to advertising competitions.

Table 12 summarizes the SPS contracts for service to PWGSC.

Table 12: SPS Contracts Managed by Agencies - Services to PWGSC (\$ millions)

Event	Sponsorship	Agency Commission	Production/ Professional Fees	Total
Strategic Planning	-	-	1.85	1.85
Agency Selection	0.21	0.04	0.34	0.59
Design of Logo	-	-	0.36	0.36
CIO Website	-	-	0.30	0.30
Other	-	-	0.10	0.10
Total	<u>\$0.21</u>	<u>\$0.04</u>	<u>\$2.95</u>	<u>\$3.20</u>

Table 12a: SPS Contracts Managed by Agencies - Services to PWGSC

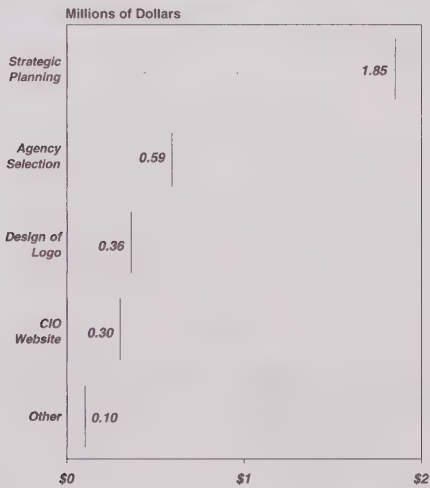
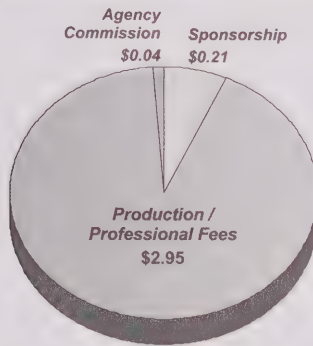


Table 12b - SPS Contracts Managed by Agencies - Services to PWGSC



## II.O

## PUBLIC OPINION RESEARCH - \$2.13 MILLION

The GOC entered into 63 SPS contracts between 1994-95 and 1998-99 for the production of syndicated studies and public opinion research. A listing of the individual contracts is set in Schedule 4.

The contracts were issued to 17 different communication agencies including those listed in Table 13:

Table 13: SPS Contracts Managed by Agencies - Public Opinion Research

	Total Contracts (000s)
Angus Reid	\$954.6
Enviro-nics	249.1
Crop	246.1
Infras	173.0
Other	<u>499.5</u>
Total	<u>\$2,122.8</u>

Table 13a: SPS Contracts Managed by Agencies - Public Opinion Research

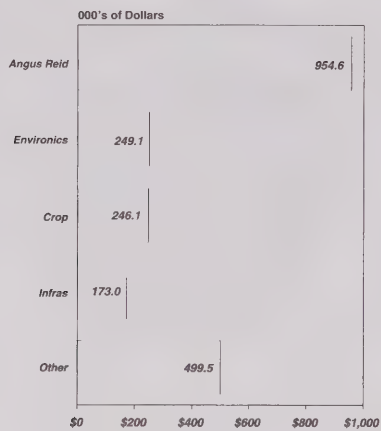
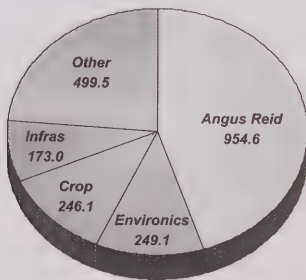


Table 13b: SPS Contracts Managed by Agencies - Public Opinion Research (\$000's)



G

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APPENDIX G

UNITY RESERVE  
APPROPRIATIONS

UNITY RESERVE – PROJECT LIST  
(\$ millions)

Responsible Departments & Items	Year	Amount (\$ millions)
<b>Citizenship and Immigration Canada</b>		
• CI – Jeux de la Francophonie & World Championships of Athletic	2001/02	1.548
<b>Department of Foreign Affairs and International Trade</b>		
• DFAIT: Funding for National Unity Strategy Public Diplomacy and Cultural Programs	1998/99	3.800
	1999/00	6.500
	2000/01	8.000
	2001/02	8.000
	2002/03	8.000
	2003/04	8.000
	2004/05	8.000
• DFAIT: Forum of Federations and International Conference on Federalism	1999/00	2.800
	2000/01	2.000
	2001/02	2.000
	2002/03	1.500
	2003/04	0.100
• DFAIT: Champlain 2004	2001/02	1.300
<b>Canadian International Development Agency</b>		
• CIDA: Forum of Federations	1999/00	0.250
	2000/01	1.000
	2001/02	1.000
	2002/03	0.750
<b>Parks Canada PCA</b>		
• Infrastructure Renewal Plan	1999/00	0.500
• Canadian Irish Studies Foundation	2000/01	0.500
• Cathédrale du Marie-Reine du Monde, Montreal	2000/01	0.450
• Land etc Ntl Parks & Historic Sites	2001/02	11.910
<b>Finance Fin</b>		
• Communications	1999/00	1.000
<b>Governor General of Canada</b>		
• GG 50th Anniversary of the Cdn Governors General	2001/02	1.200
	2002/03	1.250
<b>Health Canada</b>		
• Advertising Expenses in Ontario	2000/01	2.125

<u>Responsible Departments &amp; Items</u>	<u>Year</u>	<u>Amount</u> (\$ millions)
<b>Canadian Heritage</b>		
• CIO/ComCda Canadians in Europe Association	2000/01	0.781
	2001/02	1.200
	2003/04	1.320
	2004/05	1.386
• CH: Canadian Identity	1994/95	8.000
• CH: Unity – Communications	1994/95	3.000
• CH: Unity - Quebec Referendum	1995/96	5.000
• CH: Cdn Identity Phase II	1995/96	3.500
• CH: Strengthening Canada	1996/97	11.000
	1997/98	14.000
	1997/98	13.000
• CH: Exchanges Canada & Network	1998/99	3.500
• CH: Canada Day Festivities/Celebrate Canada	1998/99	4.500
	1999/00	7.500
	2000/01	10.500
	2001/02	10.400
	2002/03	10.000
	2003/04	10.000
	2004/05	10.000
• CH: Cdn Francophonie Year	1998/99	2.000
	1999/00	5.000
• CH - Council for Canadian Unity	1998/99	3.900
	1999/00	4.000
	2000/01	4.000
	2001/02	4.200
	2002/03	4.200
	2003/04	4.350
	2004/05	4.500
• CH: Francophone Minorities	1998/99	2.000
	1999/00	2.000
• CH: Summer Work Student Exchange	1999/00	2.500
	2000/01	2.500
	2001/02	2.800
	2002/03	4.600
	2003/04	4.700
	2004/05	4.700
• CH - Exchanges and Networking	1999/00	7.750
• CH - Governor General's Study Conf	1999/00	0.500
• CH - Lieutenant Governors	1999/00	0.310
	2000/01	0.310
	2001/02	0.310
• CH Katimavik Program	1998/99	3.000
	1999/00	3.000
	2000/01	3.000
	2001/02	3.000
	2002/03	3.000

<u>Responsible Departments &amp; Items</u>	<u>Year</u>	<u>Amount</u> (\$ millions)
<ul style="list-style-type: none"><li>CH - Human Rights Program</li></ul>	2000/01 2001/02 2002/03	0.050 0.050 0.050
<ul style="list-style-type: none"><li>CH - Jeux de la Francophonie</li></ul>	2001/02	3.000
<ul style="list-style-type: none"><li>CH - Commemoration of the 400th anniversary of the French presence in America</li></ul>	2001/02 2003/04 2004/05	0.200 1.500 3.500
<ul style="list-style-type: none"><li>CH - Queen's Jubilee</li></ul>	2001/02 2002/03 2003/04	1.300 10.700 0.500
<ul style="list-style-type: none"><li>CH - NB Gov'ts Translation of Municipal Bylaws</li><li>CH - City of Ottawa - French Language Services Policy</li><li>CH - Youth &amp; Francophones of Tomorrow initiative</li><li>CH - Third World Youth Championships in Athletics</li><li>CH - Terry Fox Canadian Youth Centre of CCU</li></ul>	2001/02 2001/02 2001/02 2002/03 2002/03 2003/04 2004/05	1.000 0.500 3.500 3.000 0.225 0.770 0.770
<ul style="list-style-type: none"><li>CH - Orchestre symphonique de Québec</li><li>SS: 125th Medals</li><li>SS: Know Canada Better</li><li>SS: Aboriginal Constitutional Review</li></ul>	2003/04 1992/93 1992/93 1992/93	0.130 1.300 6.000 3.100
<b>National Archives of Canada</b>		
<ul style="list-style-type: none"><li>NA - Peter Winkworth collection</li></ul>	2001/02	6.000
<b>National Battlefields Commission</b>		
<ul style="list-style-type: none"><li>NBC Unity</li></ul>	1997/98 1999/00 2000/01	1.500 2.000 1.000
<ul style="list-style-type: none"><li>NBC - Infrastructure Renewal Plan</li></ul>	1999/00 2000/01 2001/02	1.000 3.000 0.900
<ul style="list-style-type: none"><li>NBC- Maison Louis St-Laurent</li></ul>	2001/02 2002/03	1.020 0.220
<b>National Capital Commission</b>		
<ul style="list-style-type: none"><li>NCC Canada - 125th Celebration</li><li>NCC: Visitors Centre Rideau Hall</li></ul>	1992/93 1999/00	0.300 1.850
<b>Industry Canada</b>		
<ul style="list-style-type: none"><li>Prosperity Communications Funding</li></ul>	1992/93	12.000
<b>Canadian Tourism Commission</b>		
<ul style="list-style-type: none"><li>CTC - Toronto Transit Commission in support of World Youth Day</li></ul>	2002/03	1.250



<u>Responsible Departments &amp; Items</u>	<u>Year</u>	<u>Amount</u> (\$ millions)
<b>Social Sciences and Humanities Research Council of Canada</b>		
• SSHRC - Federalism and Federation Program	1998/99	0.300
	1999/00	0.450
	2000/01	0.450
	2001/02	0.700
	2002/03	0.700
<b>Atlantic Canada Opportunities Agency</b>		
• ACOA - Dalton K. Camp Centre for Journalism St Thomas University	2002/03	0.500
<b>Economic Development Agency of Canada for the Regions of Quebec</b>		
• EDACRQ-Mosaiculture 2003	2003/04	1.800
• EDACRQ Grand Prix du Canada	2003/04	4.000
<b>Department of Justice</b>		
• Jus: Constitutional Law	1996/97	0.900
	1997/98	1.000
	1998/99	1.000
• Jus/GSC: Civil Code	1997/98	3.600
	1998/99	3.400
<b>Office of the Commissioner of Official Languages</b>		
• OCOL: National Unity	1992/93	1.500
• OCOL - Bridge Financing re Strategic Turnaround	2002/03	1.400
<b>Public Works and Government Services Canada</b>		
• CIO/ComCda: Communications	1998/99	20.000
	1999/00	20.000
• CIO/ComCda - Office	2000/01	10.400
	2001/02	10.400
	2002/03	10.400
	2003/04	10.400
	2004/05	10.400
	2005/06	10.400
• CIO/ComCda - Ministerial Tours in Western Canada	2001/02	1.500
	2002/03	1.500
• CIO/ComCda - Fairs and Exhibitions	2001/02	1.000
• CIO/ComCda - The Liaison Project of the Council for Cdn Unity	2002/03	1.350
• CIO/ComCda - New Unity Office	1996/97	20.000
	1997/98	20.000
• GSC: Unity - Quebec Referendum	1995/96	10.000
• GSC: Cdn Identity Phase II	1995/96	1.500

Responsible Departments & ItemsYear    Amount

(\$ millions)

• GSC: Unity	1996/97	17.000
	1997/98	17.000
• GSC: Advertising Unity	1997/98	18.800
• GSC: Communications Group	1998/99	35.000
• PWGSC - Sponsorship	1999/00	9.000
• PWGSC - Clarity Act	2000/01	0.400
• PWGSC - Additional Sponsorship Activities	2001/02	3.500
• SSC - Communications	1992/93	3.313

**Public Works and Government Services Canada** (and others)

• Misc Depts: Constitutional Reform	1992/93	24.102
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**Privy Council Office**

• PCO Support for the Minister for Constitutional Affairs	1992/93	11.500
• PCO Quebec costs for Charlottetown Referendum	1994/95	34.600
• PCO Federal/Provincial Relations	1995/96	5.000
	1996/97	5.000
	1997/98	5.000
	1998/99	5.200
	1999/00	5.200
	2000/01	5.606
	2001/02	5.606
	2002/03	5.774
	2003/04	5.774
	2004/05	5.774
	2005/06	5.774
• PCO Millennium Initiatives	1997/98	1.400
• PCO Steering Cttee 4e Jeux Francophonie	1998/99	0.100
• PCO Official Languages & Social Union Framework (SUFA)	2002/03	0.750

**Canadian Intergovernmental Conference Secretariat**

• CICS: Multilateral Constitutional Conf	1992/93	4.800
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<b><u>TOTALS:</u></b>	1992/93:	67.9
	1993/94	-
	1994/95	45.6
	1995/96	25.0
	1996/97	53.9
	1997/98	95.3
	1998/99	87.7
	1999/00	83.1
	2000/01	56.1
	2001/02	89.0
	2002/03	71.1
	2003/04	53.3
	2004/05	49.0
	2005/06	16.2

## H

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### APPENDIX H

# EXAMPLE TEXTS FROM RADIO CAPSULES

## 1.0

### OUTDOOR LIFE RADIO CAPSULES - APRIL 2002 (#20)

Patrick Campeau here for *Sentier Chasse-Pêche* magazine.

Even if you carefully choose just the right natural or artificial obstacles providing adequate cover, and even if you make your lure as appetizing as possible, there are still times, no matter how persistent you might be, when fish just refuse to cooperate.

The most typical example is the arrival of a cold front. We don't fully understand how weather systems affect fish behaviour, but there is definitely a clear impact on how successful your fishing will be. It is therefore best to concentrate your efforts on more auspicious periods.

The Government of Canada wishes you happy fishing!

2.0

## ECONOMIC RADIO CAPSULES - OCTOBER 2001 (#1)

Good day. Christine Lamer here with today's economic capsule.

If you operate a business, and your spouse or children work for your company, the wages you pay them are tax deductible provided that they are reasonable for the work performed. The wages paid are of course taxable in their hands.

Wages paid to your spouse or children will enable them to begin contributing to their own RRSP and to the Canada Pension Plan, as well as to the provincial pension plan.

Good day from the Government of Canada!

3.0

## AGRI-FOOD RADIO CAPSULES - FEBRUARY 2002 (#49)

Roger Bourassa here on agri-food.

Today, let's talk about floral decoration. It is easy to find wildflowers in summer. Winter, however, makes them harder to find. Fortunately, for a number of years now, they have been available in supermarkets at a reasonable price.

Before arranging them, cut off any unnecessary leaves, leaving enough to balance the arrangement. The main rule of thumb is not to put enormous bouquets in a small room, or flowers that are too short in a large vase. To make them last longer, change the water twice a day. If they begin to droop, cut a half centimetre off the stem so that they can absorb the water more readily.

The Government of Canada encourages you to beautify your environment.

4.0

## HOME RADIO CAPSULES - OCTOBER 2001 (#13)

Denis Bergeron here for *Rénovation Bricolage* magazine.

Varnish protects hardwood floors from wear, but it too will eventually wear out.

For long-lasting hardwood floors, keep the varnish in good condition. This means regularly cleaning up any sand, which is very abrasive, by vacuuming or sweeping. Every time you move a piece of furniture, there is a risk of scratching the floor. The answer is to glue felt pads under the legs of your furniture. To move household appliances, slide them on an upside down piece of carpet. Quickly wipe up any spills. Lastly, keep the relative humidity in the house between 40 and 50% year-round.

Happy renovations from the Government of Canada.

2762









